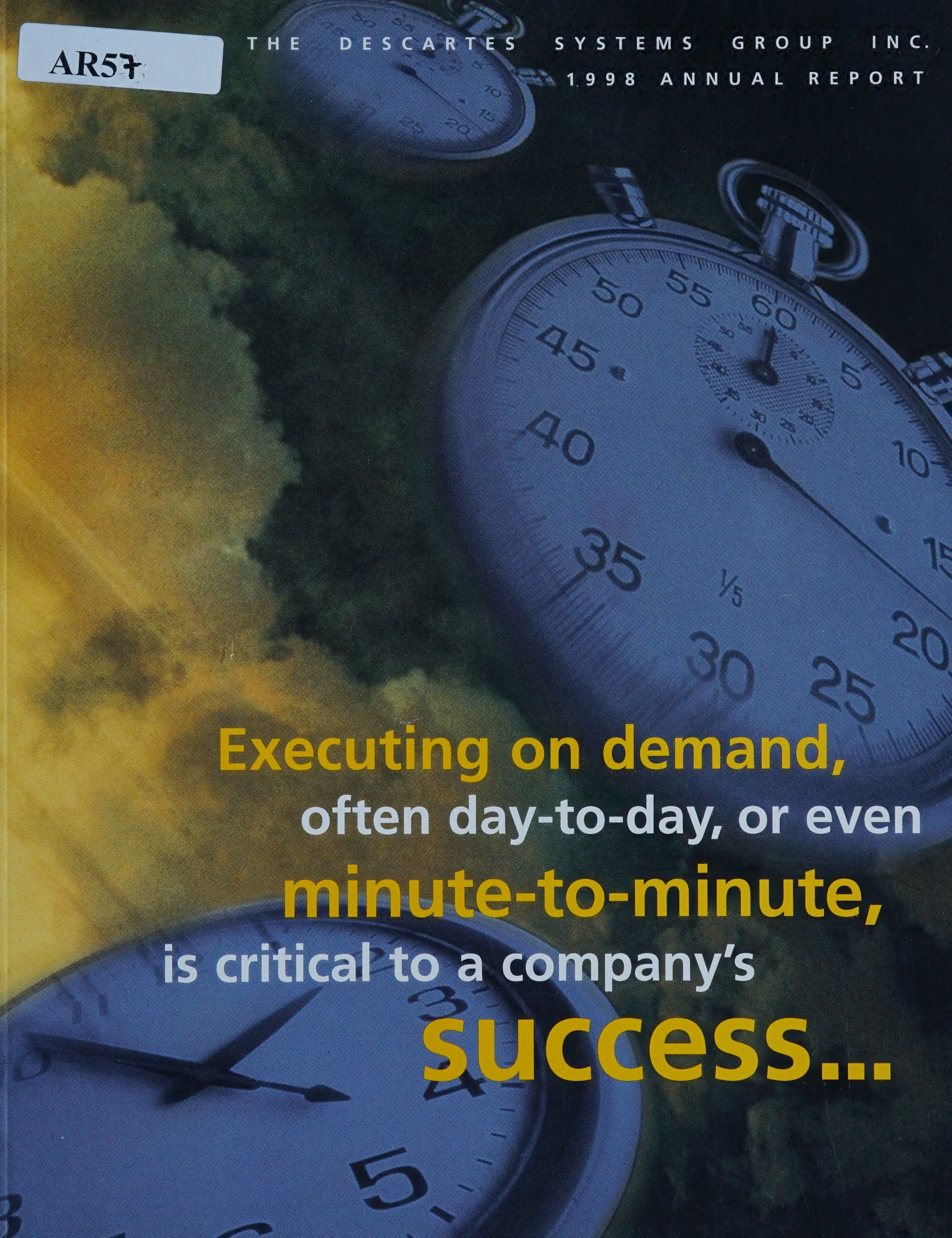
THE DESCARTES SYSTEMS GROUP INC.
1998 ANNUAL REPORT



Executing on demand,
often day-to-day, or even
minute-to-minute,
is critical to a company's
success...

At Descartes, we create world-class software that enables Fortune 1000 companies to manage the complex order-to-delivery process, both efficiently and profitably.

Financial Highlights

Year ended January 31, 1998 (in thousands), US GAAP	1998
Total Revenue	$ 29,776
Gross Margin	78%
EBITDA*	16
Purchased Research and Development	(46,982)
Goodwill and Depreciation	(2,907)
Net Income	(50,287)

* earnings before interest, taxes, depreciation, amortization of intangibles, and excluding one-time write offs of purchased research and development

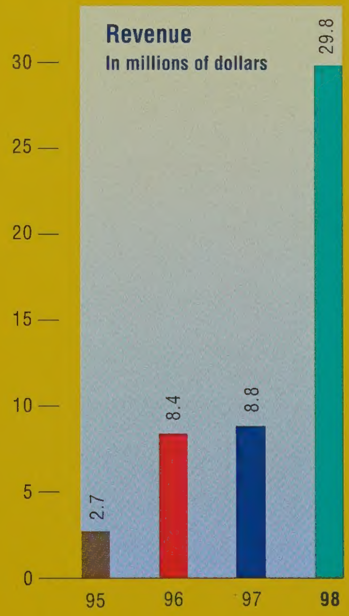
Managing the order-to-delivery process may sound straightforward, but it is often just the opposite. At its most basic level, the order-to-delivery process is actually a collection of many sub-processes that include order entry, pricing and promotions control, customer service, inventory management, fulfillment, vehicle loading, fleet routing, scheduling, delivery, account reconciliation and invoicing.

These tasks are managed by many departments, all requiring the ability to see the actual order and modify it along the order-to-delivery process, if necessary. Overlap between departments can—and does—occur; at any given point, customer service, finance, sales, or distribution all may be working on the same order.

At Descartes, we call this process *supply chain execution*—the collection of functionality that models, executes and controls real-time events that are required to actually fulfill orders and deliver them to customers.

We develop supply chain execution software (SCE) for demand-driven companies in the consumer, process and transportation (CPT) industries. Unlike other software vendors, who have focused on a specific piece of the supply chain such as order management or transportation, we have developed an integrated SCE suite. Our software, the *Energy*™ Supply Chain Execution Suite, streamlines the entire order-to-delivery cycle by providing a suite of agile, tightly integrated components that can be tailored to handle a wide range of operations.

The result is a broad-reaching synergy with a wide range of business processes throughout the supply chain.




The worldwide
supply chain
execution
market is
expected to grow
to over $2 billion
by the year
2000.

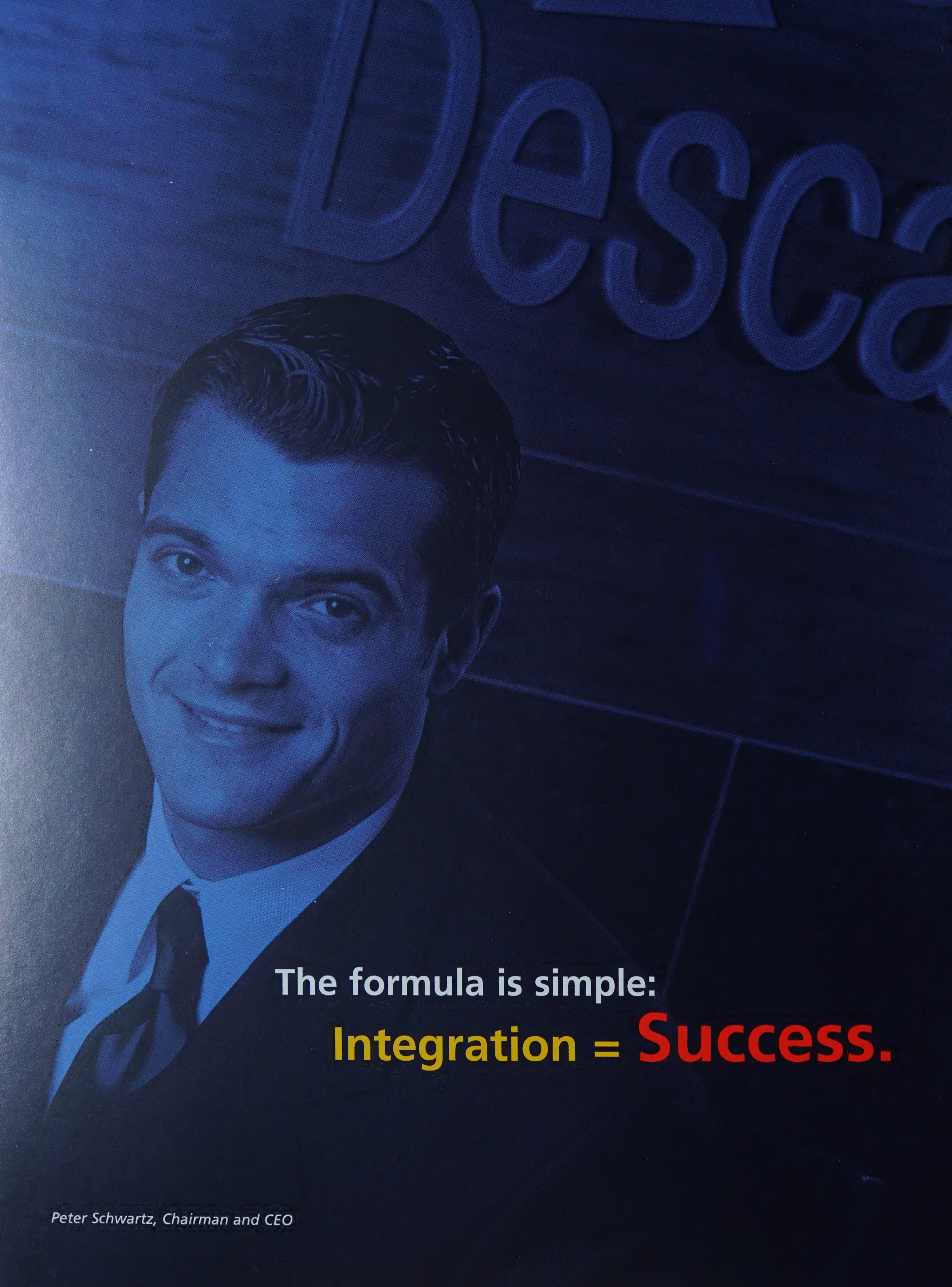
OUR MISSION IS SIMPLE:

To become the world's leading provider of

supply chain execution software

to global Fortune 1000 companies in the consumer,

process and transportation industries.



The formula is simple:

Integration = Success.

Peter Schwartz, Chairman and CEO

Every enterprise market has bred leaders.

Stand-alone solutions are yesterday's news. Tomorrow demands total integration.

We succeed when information flows seamlessly from one end of an enterprise to the other.

Meeting demands isn't good enough. We must anticipate them.

Dear Shareholders:

A Year of Growth

Fiscal 1998 was a year of rapid growth for Descartes. Our revenues grew 238% to just under $30 million. We completed the strategic acquisition of two key software companies, Michael Mead & Associates and Roadshow International, whose products broadened our footprint in the supply chain execution market and provided us with a well-developed international infrastructure. We expanded our professional expertise as our employee base grew from 65 to more than 300, and we increased our market presence with additional offices in North America, The Netherlands, the United Kingdom, France and Malaysia, improving our ability to service global Fortune 1000 companies. At the same time, our client base grew significantly; we now do business with more than 800 customers in over 45 countries. Descartes also successfully raised net proceeds in excess of $70 million in three successive financings, ending the year with an extremely strong balance sheet and $50 million in cash and marketable securities.

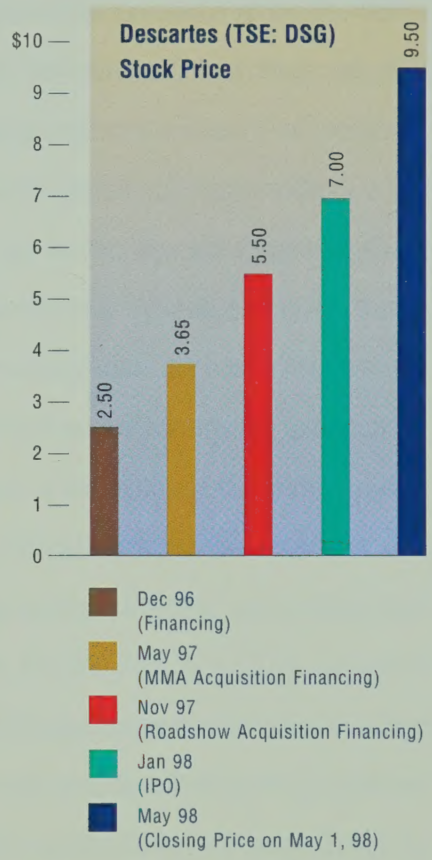
On January 21, 1998 our shares began trading on the Toronto Stock Exchange and, at the time of writing, have appreciated 36% since the close of our initial public offering and 260% since the first private financing of fiscal 1998 that was completed in May 1997. Our market capitalization currently stands around $290 million, placing us among the largest software companies in Canada and in the supply chain management software market.

Financial Results

Descartes, while in the midst of this dynamic growth cycle, delivered its strongest financial performance in company history in fiscal 1998. For the year ended January 31, 1998, revenue increased 238% to $29.8 million, from $8.8 million for the prior fiscal year. Software license revenue for fiscal 1998 increased 346% to $12.5 million from $2.8 million and increased as a percentage of total revenue to 42% in fiscal 1998 from 31% for the prior year. Operating results under US GAAP for the year ended January 31, 1998, as reflected in EBITDA (earnings before interest, taxes, depreciation and amortization of intangible assets), and excluding a one-time write off for purchased in-process research and development, increased by $2.4 million or $0.46 per share to $15,518 or $0.00 per share, as compared to a loss of $2.4 million or $0.46 per share in the previous fiscal year.

We achieved these financial results by expanding our sales force, adding new distribution channels through new strategic business alliances, and introducing the new *Energy*™ suite across a client base expanded

by our recent acquisitions. We enjoyed immediate results cross-selling into the client bases of the companies we acquired in fiscal 1998. For example, in May 1997, Michael Mead & Associates' client Weston's Bakery signed a $1 million license for *Energy v.6* on the heels of our closing the acquisition and, since then, Weston's affiliates Stroehmann's Bakery and Neilson's Dairy also licensed *Energy v.6*. At the end of fiscal 1998, only months after completing the acquisition of Roadshow International, we signed a $2 million dollar *Energy v.6* license with Buffalo Rock Beverages, the largest private Pepsi bottler in the United States and a user of *Roadshow*® routing and scheduling software. We believe the project commitments of these and other accounts are evidence of the strong demand that we are building for the product and the market appeal of a supply chain execution suite.



Product Achievements

These very visible signs of Descartes' growth and its *Energy v.6* initiatives only represent part of the story. Behind the scenes, our product team integrated *Energy v.5*, mobile computing software from Michael Mead, and *Roadshow* vehicle routing and scheduling to offer many of our existing customers and select new prospects a functionally rich, end-to-end software solution. Our newly extended *Energy v.5* product suite significantly expands sales opportunities of our existing products, especially when marketed as part of a SCE suite solution, and also provides our customers with new options to extend the life of their current systems. We continue to have a dedicated team that focuses on the enhancement of our *Energy v.5* offering and supporting the needs of its users.

At the same time, we completed the foundation of *Energy v.6*, our newest product initiative and the road to the future for Descartes and our customers. *Energy v.6*, a three-tier, object oriented, client/server product, combines our vision for the future of supply chain execution with today's leading product development tools and methodologies. *Energy v.6* delivers a fully integrated suite of supply chain execution components, offering companies an attractive end-to-end business solution as an alternative to integrating yesterday's "best-of-breed" applications. Every aspect of the order-to-delivery cycle — order entry, pricing and promotions management, customer service, inventory management, fulfillment, vehicle loading, fleet

routing and scheduling, delivery, account reconciliation, and invoicing—is managed by *Energy* to maximize productivity and profitability in an enterprise driven by consumer demand.

Descartes' suite approach eliminates several challenges that are inherent in best-of-breed implementations. Systems integration costs decrease dramatically in an *Energy* implementation because all of the component applications are native to a common architectural framework. Any functional overlaps that are present in an assembly of best-of-breed applications effectively disappear in *Energy v.6*, resulting in highly optimized, streamlined performance. Finally, *Energy v.6* 's workflow management provides our customers with the tools to define, manage, and update the manner in which their critical business processes are executed. As a result, our software can be adapted to our customers' best business practices as they evolve.

When we began talking about our supply chain execution suite concept some time ago, it was clear to us that our idea was before its time. But we're students of history and we saw a great opportunity unfolding before us. We had already seen the movement to product suites in the enterprise resource planning (ERP) market, and how the companies who created integrated suites for the end-to-end transaction backbone of the enterprise rose to dominate the market. Best-of-breed vendors in the ERP space have all but disappeared. In the supply chain planning (SCP) software market, the same thing has taken place. We've now seen a consolidation of the SCP market into the hands of a few leading providers of enterprise planning and optimization suites. So we weren't giving away any trade secrets when we predicted that supply chain execution (SCE) was next. We are firmer than ever in our belief in the market for supply chain execution suites. Preliminary response to *Energy v.6* has validated our confidence. To catch up to us and offer a seamlessly integrated suite, our competitors must adopt an open-component strategy and re-architect their products using the latest object-oriented technology. It has taken us a few years and much expense to develop *Energy v.6* using some of the best talent available, so we don't envy their challenge. Nor do we rest on our time-to-market advantage. Software markets move quickly. We continue to work hard to stay ahead.

Energy v.6 is designed and architected to appeal to ERP and SCP vendors who plan to extend their solutions with SCE functionality. *Energy v.6* offers these partners the opportunity to reach their customers with an exciting new message: an extended enterprise solution featuring seamless component level integration with Descartes' SCE suite. In the battle for the order, our new partners will benefit from the differentiation afforded by Descartes' leading-edge products among a field of competing solutions which becomes more commoditized every day.

Towards the Future

As proud as we are of our achievements over the past year, we see them as the results of a broad fundamental commitment that we have made to our shareholders, customers and partners. Simply put, *we did what we said we were going to do.* No surprises, no sudden changes in direction. We plan to continue in this manner.

As for the future, this year is already shaping into another exciting year for Descartes. We have ended the R&D phase for *Energy v.6* and, with its commercial release imminent, have effectively outdistanced other companies who plan to enter the SCE space. Early in the new fiscal year, we announced a strategic alliance with J.D. Edwards, a premier ERP solution provider, which we view as a strong endorsement of our products and strategy. Significant progress has also been made with other strategic partners and during fiscal 1999, we expect to announce additional integration alliances with ERP and SCP companies. We also recognize that we can increase our market share and our software license revenues by strategically outsourcing our implementations to leading supply chain consulting firms. As these firms launch new SCE implementation practices, we believe that *Energy* is well positioned to be the SCE foundation of choice for these firms.

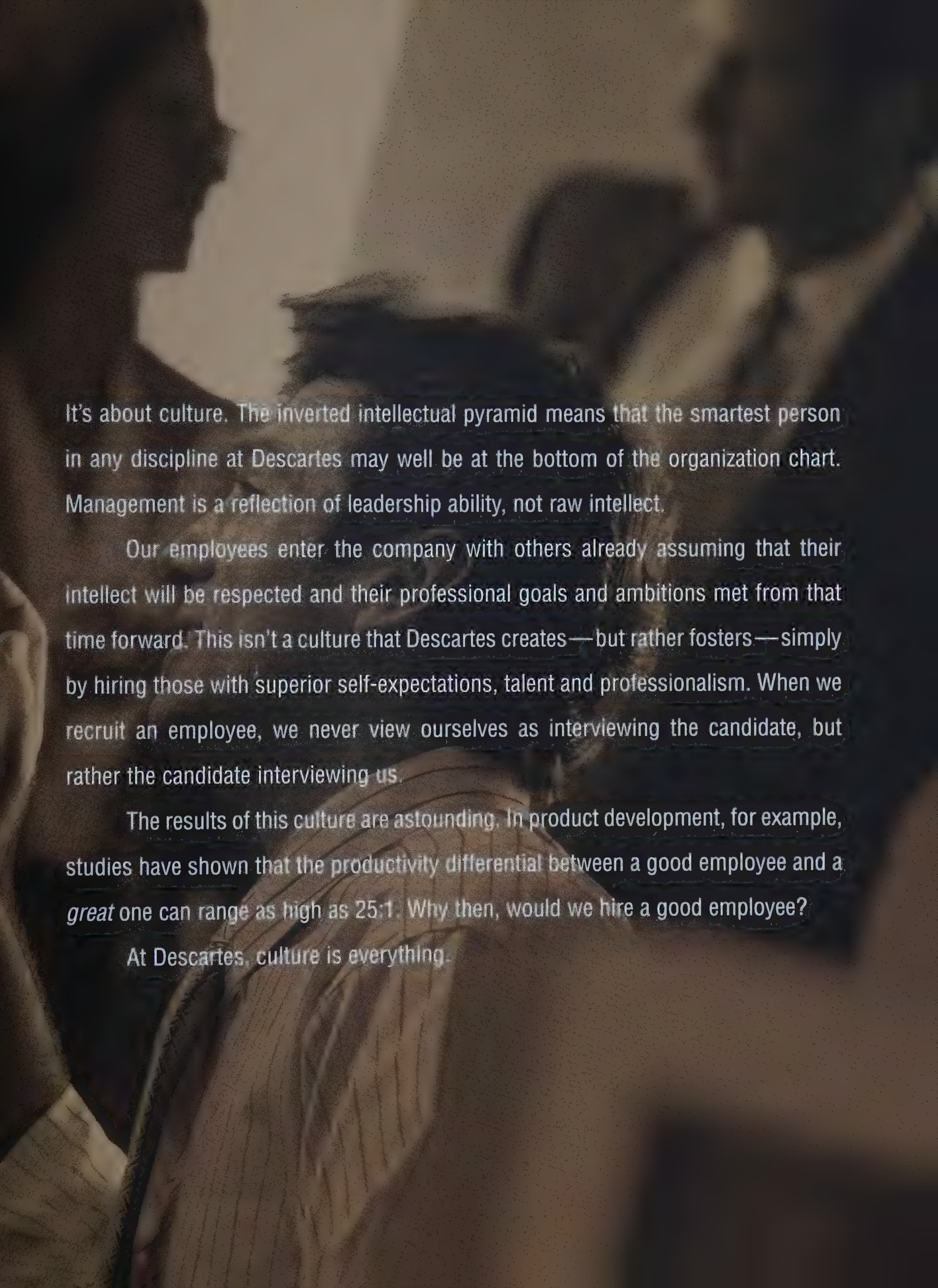
We have also successfully closed several business deals in excess of the million-dollar mark, highlighting the fact that our suite sales are driving greater revenues per contract. Our company and its reputation are receiving increased recognition in the marketplace. With partnership, innovation and differentiation at the core of our strategy, we expect that the interest we have generated to date will increase even more as *Energy v.6* goes live.

In summary, over the past year, Descartes Systems Group has enjoyed numerous successes in our campaign to expand our footprint, increase our revenues, and build the infrastructure that we need to launch *Energy v.6* and support our global clients. As a result, we are well positioned to emerge as the leader in the SCE market.

We would like to thank everyone who made this pivotal year in our company's growth possible, including our shareholders, employees, customers and business partners.

Peter Schwartz
Chairman and CEO
May 1, 1998


Descartes
The inverted intellectual pyramid.



It's about culture. The inverted intellectual pyramid means that the smartest person in any discipline at Descartes may well be at the bottom of the organization chart. Management is a reflection of leadership ability, not raw intellect.

Our employees enter the company with others already assuming that their intellect will be respected and their professional goals and ambitions met from that time forward. This isn't a culture that Descartes creates—but rather fosters—simply by hiring those with superior self-expectations, talent and professionalism. When we recruit an employee, we never view ourselves as interviewing the candidate, but rather the candidate interviewing us.

The results of this culture are astounding. In product development, for example, studies have shown that the productivity differential between a good employee and a *great* one can range as high as 25:1. Why then, would we hire a good employee?

At Descartes, culture is everything.

Global Reach

Although Descartes operates with a global presence in over 45 countries, the company's success has been built upon attention to the unique needs of the local customer. A user in Brazil may be delivering the same type of product as another user in Chicago, yet may be doing so with differing business processes.

The ability to localize Descartes product by language, including double-byte character sets, is made possible by an open and flexible approach in underlying technology. Beyond multiple language capabilities, Descartes' *Energy* suite also supports workflow-enabled processes, allowing the customer to implement a system tailored to their individual company needs. With Descartes, multinational companies enjoy a partnership with a vendor who can work with their unique business, no matter where in the world they operate.


Locally.
CATETE
LARANJEIRAS
FLAMENGO
BOTAFOGO
COPACABANA
LEME
RIO DE JANEIRO

At **Descartes,** we ensure that our **software** enables our customers to ***run*** their business...

better

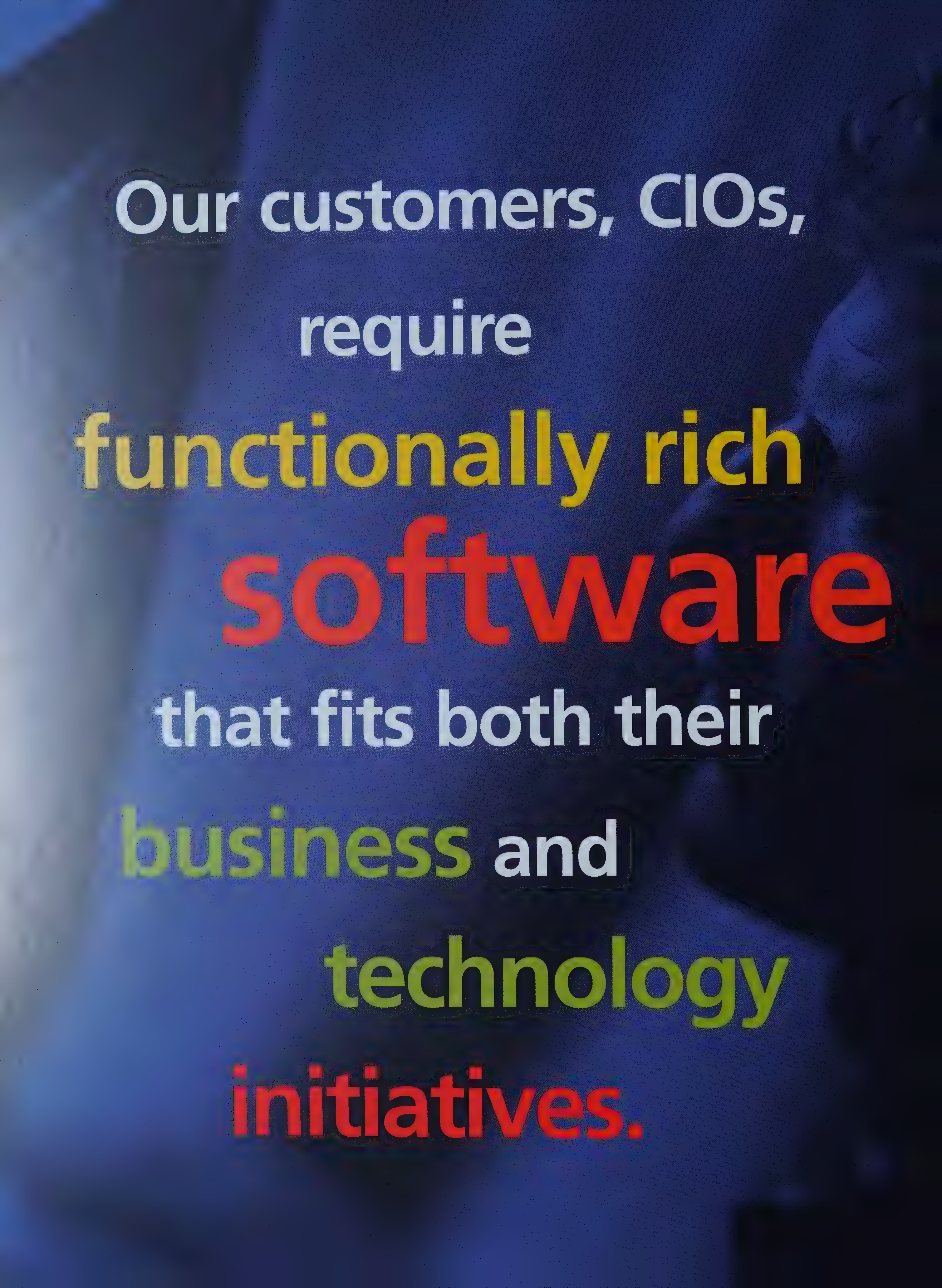
than anyone else.

We use requirements of consumer, process and transportation (CPT) industries as a benchmark to measure our software's effectiveness. Why? Because we believe that the business trends characterizing these demand-driven industries are already gaining momentum in other industries.

Companies in these industries typically work within short planning horizons and are forced to respond rapidly to changes in demand. At the same time, they routinely deal with the complexities of short product shelf life, high order volumes, price and promotions volatility, and the need for real-time vehicle routing. Their field sales and service force is their most visible link to their customers. As a result, they require a solution that is designed to handle complex order management, customer service and distribution issues such as Direct-Store-Delivery (DSD), Mobile Workforces, Efficient Consumer Response (ECR), and Vendor Managed Inventory (VMI). To serve these companies, our solutions have to work harder, which requires us to design to a higher level of reliability, adaptability, and flexibility.

How do we create business advantage for our clients and differentiate our solution among competitors? By extending our software into the field with mobile computing options. By creating multilingual software. By including electronic messaging with our *Energy* suite, so that customer service can reach field staff quickly and easily. And by adding mobile data communications options, so that both pickup and delivery plans can be transferred, real-time, between the dispatcher and drivers.

Capabilities like these help our clients become more efficient, more responsive and more in tune with their own supply chain network. And, they can suddenly see new ways to gain a competitive edge.


Our customers, CIOs,
require
functionally rich
software
that fits both their
business and
technology
initiatives.

From a supply chain execution perspective, our solutions must deliver greater efficiencies, reduced costs and competitive advantage. From an information technology (IT) perspective, our solutions must deliver reliability, supportability and a migration path that enables our customers to adapt as technology evolves.

Our newest product initiative, *Energy v.6*, has been designed to exploit the latest technologies and standards. We utilize an object-oriented development environment to build and deploy distributed client/server applications on all popular clients, servers, relational databases, networks, and middleware.

Energy's supply chain execution functionality is crafted as a set of business objects, small functional elements, which are combined to create our highly differentiated business components. The suite's configurable workflow framework allows us to define the client-specific rules which control how business processes will be executed. As business processes evolve, *Energy's* workflow can be updated dynamically to meet new requirements.

Energy v.6 has been designed to operate as a stand-alone solution or as an integrated extension to ERP and/or SCP suites. CIOs can, in effect, pick and choose the components they need to replace or extend the capabilities of their current systems. They can control the deployment of new technologies synchronized with their business initiatives.

With Descartes as a partner, CIOs worldwide gain powerful advantages in competitive environments.

the future

Come and visit us. You'll feel it yourself. A sense of controlled excitement. Steadily growing momentum.

As we move into the new fiscal year, our product team continues to focus on expanding *Energy's* supply chain footprint, supporting our vision of an integrated product suite that is differentiated by its superior architecture. We will continue to work closely with clients to develop next-generation product strategies, ultimately strengthening our position as the de facto leader in core vertical markets. And our efforts to explore and expand into new markets will go on, leveraged by alliances with value-added implementation partners.

We believe that Descartes' success is built on efficient execution of business fundamentals, technical superiority and great people. With a keen market vision, tomorrow should be no different.

These results should be read in conjunction with the Company's audited consolidated financial statements and notes thereto presented in accordance with US generally accepted accounting principles. The Company has historically prepared and filed its financial statements in accordance with Canadian GAAP. During fiscal 1998, the Company began preparing and reporting its financial statements in accordance with US GAAP, in addition to reporting in Canadian GAAP. This change in reporting was made to reflect accounting rules familiar to many of the Company's institutional investors who routinely invest in NASDAQ listed technology companies reporting in US GAAP together with the Company's customers and industry and financial analysts who are more familiar with US GAAP. US GAAP presentation is also more consistent with the financial presentation of the Company's industry counterparts and competitors.

Overview

The Descartes Systems Group Inc. develops, markets and supports supply chain execution software products and related services for the consumer, process and transportation industries. Supply chain execution software improves efficiencies in managing complex order-to-delivery processes for companies that operate with short time-to-plan horizons and require rapid response to changes in demand. Descartes products are used by over 800 customers in more than 45 countries worldwide. Over 35 industries are listed among the company's customer base, with significant representation from beverage and food-related segments.

Selected Consolidated Financial Information

($ thousands) except per share amounts	1997–1998 % increase	% Revenue	1998	% Revenue	1997
Revenue	238%	100%	$ 29,776	100%	$ 8,803
Cost of revenue	94%	22%	6,504	38%	3,345
Gross margin	326%	78%	$ 23,272	62%	$ 5,458
Expenses					
Sales and marketing	214%	24%	$ 7,260	26%	$ 2,309
Professional services	362%	28%	8,439	21%	1,827
General and administration	32%	7%	2,137	18%	1,623
Net research and development	165%	18%	5,420	23%	2,049
	198%	77%	$ 23,256	88%	$ 7,808
Earnings (loss) before items below			$ 16		$ (2,350)
Purchased in-process research and development			46,982		0
Depreciation			524		166
Goodwill amortization			2,383		29
Net interest expense (revenue)			8		(12)
Earnings (loss) before income taxes			$ (49,880)		$ (2,533)
Income taxes			406		(24)
Net loss			$ (50,287)		$ (2,509)
(Loss) per common share – basic			$ (5.04)		$ (0.49)

Years Ended January 31, 1998 and January 31, 1997

Revenue The Company generates revenues through the licensing of its software products; the sale of third-party hardware and sublicensing of associated software; and through the provision of professional services, including customer support and maintenance, consulting services, software installation, project management, training services, and software customization.

Total revenue increased 238% in fiscal 1998 to $29.8 million from $8.8 million in fiscal 1997 primarily as a result of an increase in software license revenues and related services revenue. Revenues from software and services increased by 353% to $22.0 million in fiscal 1998 from $4.8 million in fiscal 1997. Software license and services revenues increased as a result of growing acceptance of the Company's software solutions, the introduction of its latest product, *Energy v.6*, and the expansion of the Company's products, sales force and international infrastructure through the acquisition of Roadshow International, Inc. which was completed in the fourth quarter of fiscal 1998.

The Company witnessed a trend toward hardware sales declining as a percentage of total revenue, from 45% in fiscal 1997 to 26% in fiscal 1998. Hardware sales also increased in absolute terms in fiscal 1998 by 97% to $7.7 million from $3.9 million in fiscal 1997. The Company expects that hardware sales may continue to decline as a percentage of total revenue, while continuing to increase in absolute terms. Descartes' products are increasingly being targeted to Fortune 1000 companies which can independently source hardware cheaply and effectively directly from the manufacturer. As a result, the Company expects to generate a declining portion of its revenues from hardware sales and a greater proportion from software licenses and services revenue in the future. The Company believes that a reduction in hardware revenues as a percentage of total revenues will yield higher gross margins as such hardware revenues are supplanted by higher margin software license and services revenue.

North American revenues as a percentage of total revenues increased from 80% in fiscal 1997 to 87% in fiscal 1998. International revenues (revenues outside of North America) decreased as a percentage of total revenue from 20% in fiscal 1997 to 13% in fiscal 1998 while increasing in absolute terms by 130% from $1.7 million in fiscal 1997 to $4.0 million in fiscal 1998. The absolute increase in international license revenues resulted from sales made through the Company's international infrastructure acquired through Roadshow International, Inc. while the decline in international revenues as a percentage of total revenues reflects growth in revenues from within North America rather than a tapering off of international business.

Sales outside of Canada represented 93% of total sales in fiscal 1998 versus 89% in the previous year, growing by 255% to $27.7 million this year.

Cost of Revenue The Company incurs variable costs related to the sales of third-party hardware and software as well as certain license fees to suppliers, royalties and agent commissions. As a percentage of revenue, cost of sales can vary significantly, depending largely on the proportion of lower-margin hardware sales to total revenues.

Total cost of revenue increased 94% to $6.5 million in fiscal 1998 from $3.3 million in fiscal 1997, but decreased as a percentage of revenues to 22% from 38%. The absolute increase in cost of revenue reflects the increased revenues of the Company in fiscal 1998, while the relative decline of cost of revenue reflects the decline in sales of lower-margin hardware as a percentage of overall sales in favour of software license and related services revenues. This trend is expected to continue, although less steeply, as the Company focuses its sales force on target markets for the sale of licenses of its next generation of *Energy*™ software suite and related services.

Sales and Marketing Selling and marketing expense consists of salaries, sales commissions, travel and other expenses required to implement the Company's sales and marketing plans. Advertising, trade shows and promotional programs are included in this expense. Sales and marketing expense increased 214% to $7.3 million in fiscal 1998 from $2.3 million in fiscal 1997, but decreased slightly as a percentage of revenue to 24% from 26%. The absolute increase in expenses was principally a result of the expansion of the Company's sales and marketing group from 12 employees at the close of fiscal 1997 to 46 at the end of fiscal 1998, along with investments made to support new geographic markets in Europe and Central and South America.

Professional Services Professional service expense consists of salaries for and expenses incurred by consultants, project managers, telephone support personnel, and other technical staff in the course of supporting and implementing the Company's software products. Professional service expense increased 362% to $8.4 million in fiscal 1998 from $1.8 million in fiscal 1997, and increased as a percentage of revenue to 28% from 21%. Increased professional service spending reflects the addition of staff as headcount increased to 133 at the end of fiscal 1998 from 28 a year earlier. In addition, travel costs associated with supporting a larger customer base increased professional services costs.

Research and Development Research and development expense consists of salaries, and equipment associated with the Company's product development activities. Gross research and development expense increased 165% to $5.4 million in fiscal 1998 from $2.0 million in fiscal 1997 but decreased to 18% of revenues from 23% in fiscal 1997. The absolute increase in R&D costs reflects the addition of staff working on development of the Company's next generation of software products. The R&D headcount was 74 at the end of fiscal 1998 compared to 27 at the end of fiscal 1997. All R&D figures are net of government assistance. The Company's R&D expenditures have not been capitalized and the Company expects to continue expensing R&D costs as incurred.

General and Administration General and administration expense consists of salaries for the finance department and certain of the Company's executive officers and general administrative and office costs. General and administration expense increased 32% to $2.1 million in fiscal 1998, but decreased as a percentage of revenue to 7% from 18%. Expenses increased in absolute terms as the administrative headcount rose to 41 at the end of fiscal 1998 from 7 a year earlier, and due to the increased use of professional services and other costs associated with public reporting and an increase in directors and officers liability insurance premiums associated with the Company's listing on the Toronto Stock Exchange. The increase in headcount in administration reflects the infrastructure required to support the growth of the Company over the past year.

Income Taxes Descartes has income tax loss carryforward of about $14.1 million. (See Note 15 of the audited consolidated financial statements US GAAP.)

Acquisitions

The Company completed two acquisitions in fiscal 1998 designed to i) broaden the footprint of the Company's *Energy* supply chain execution suite—effectively completing the suite for the Company's core vertical markets and at the same time increasing the Company's range of component offerings ii) increase the Company's installed customer base to facilitate cross and incremental selling opportunities and iii) provide an international infrastructure to support global sales to Fortune 1000 accounts.

The Company acquired Michael Mead & Associates, Inc. effective January 1, 1997 for approximately $18.2 million in stock and cash. Following closing, the name of Michael Mead & Associates, Inc. was changed to Descartes Systems MMA, Inc. ("DSM"). DSM was a competitor of the Company with expertise in mobile computing, and with particular emphasis on the baked goods industry vertical. DSM's results for the 12 months ending December 31, 1997 are included

in the fiscal 1998 consolidation. Under US GAAP, the DSM acquisition yielded intangible assets including goodwill of $8.9 million which the Company is amortizing over twenty quarters. In addition, the Company recorded $13.2 million of in-process research and development in the DSM acquisition that was expensed in fiscal 1998. To date, the Company has amortized $1.2 million of the intangible assets recorded at the date of acquisition.

The Company acquired Roadshow International, Inc. effective October 1, 1997 for approximately $41.9 million in a share exchange transaction with a $1.5 million cash component. Following the acquisition, the name of Roadshow International, Inc. was changed to Descartes Systems Roadshow, Inc. ("DSR"). DSR was the leading provider of cross-industry dynamic vehicle routing and scheduling software designed to optimize the use of a private fleet of trucks, including wireless mobile computing capability. DSR's results have been consolidated effective October 1, 1997. Under US GAAP, the DSR acquisition yielded intangible assets including goodwill of $14.2 million which the Company is amortizing over twenty quarters. In addition, $33.7 million of purchased in-process research and development was expensed at the date of acquisition. To date, the Company has amortized $0.7 million of the intangible assets arising on the DSR acquisition.

Net Earnings

The purchased in-process research and development and intangible assets resulting from the two acquisitions completed by the Company in fiscal 1998 have generated significant non-cash expenses. Accordingly, the Company's net loss in fiscal 1998 increased to $50.2 million or $(5.04) per share compared to a net loss of $2.5 million or $(0.49) per share for the previous year, principally as a result of $46.9 million of purchased in-process research and development and a $2.3 million increase in amortization of intangible assets related to the acquisitions. In addition to these expenses, the Company experienced higher depreciation costs resulting from the purchase of computer equipment required to support a growing employee base.

Given the extraordinary non-cash expenses associated with goodwill or intangible assets, and purchased research and development generated through the Company's acquisitions in fiscal 1998, the Company has been reporting earnings on an EBITDA basis (earnings before interest, taxes, depreciation and amortization) as a measure of its operating performance. Earnings before interest income, taxes, depreciation, amortization and net of one-time write off for purchased research and development was $15,518 in fiscal 1998 compared to a loss of $2.3 million in fiscal 1997. Amortization of intangibles increased from $29,250 in fiscal 1997 to $2.3 million in fiscal 1998, primarily as a result of the Company's acquisitions. Depreciation of capital assets increased 216% to $524,088 in fiscal 1998 resulting from significant purchases of computer equipment.

Liquidity and Capital Resources

The Company raised net cash of $73.4 million in fiscal 1998 through private placements on May 7, 1997, November 3, 1997 and an initial public offering on January 21, 1998. Descartes applied cash of $17.3 million toward acquisitions during the fiscal year.

In fiscal 1998, Descartes utilized net cash of $2.0 million for capital expenditures which consisted primarily of computer hardware and software utilized in research and development, selling, and training. The remaining expenditures were for fixed assets such as leasehold improvements, furniture and fixtures related to the expansion of the Company's facilities to accommodate a growing employee base. Capital expenditures totalled $0.6 million in fiscal 1997.

In fiscal 1999 and over the next few years, Descartes intends to acquire new corporate information systems to manage the Company's worldwide financial, accounting and production functions; to make leasehold improvements to accommodate personnel growth and expansion of its Waterloo headquarters; and to acquire new computers and other equipment for the growing employee base.

At January 31, 1998, the Company had an authorized operating line of credit of $3.5 million bearing interest at prime plus 0.5% (6.75% at January 31, 1998). The balance is due on demand and is secured by a general assignment of inventory and accounts receivable. The Company had not utilized any of this facility at January 31, 1998.

The Company has no long-term debt. Based on current business plans, cash on hand and from operations should be more than adequate to fund the Company's financial requirements through the 1999 fiscal year.

Descartes regularly evaluates acquisitions of businesses, products or technologies that complement its business. Any such transaction, if completed, would likely use a portion of the Company's working capital or require the issuance of additional equity instruments.

Year 2000

The Company has been actively addressing the Year 2000 issue since 1996. The Year 2000 issue has arisen as many computer systems were designed with two-year date codes and may misinterpret dates with the year "2000" as the year "1900." The Company is addressing the Year 2000 issue in respect of both its products and its internal computer systems.

All products currently marketed by the Company are Year 2000 compliant in that they can properly identify dates ending with the Year 2000 and beyond. All installed versions of the Company's supply chain management software from version 5.02 forward are also Year 2000 compliant. A small number of the Company's customers still operate version 5.01 of the Company's supply chain management suite which is not Year 2000 compliant. These customers are being upgraded to version 5.02 of the software. In addition, all Windows-based versions of the Company's software marketed under the ROADSHOW trademark are Year 2000 compliant. The Company also understands from those companies who supply the software used to develop the latest version of the Company's software suite that such development software does not contain any Year 2000 limiting factors.

Internal computer systems within the Company which are not currently Year 2000 compliant are expected to be either converted or replaced by the end of fiscal 1999. As part of the Company's ongoing strategy to upgrade its internal systems, the Company is currently upgrading its financial and accounting software on a worldwide basis. This new system, which is fully Year 2000 compliant, is expected to be in place no later then the end of fiscal 1999. The Company is currently conducting an assessment of other internal computer systems to determine whether such systems are Year 2000 compliant. On completion of this task, management will determine whether additional systems need upgrading or modification to address the Year 2000 issue. The cost of the Company's new financial and accounting system is approximately $375,000 US. Upgrading internal systems was necessitated by the Company's recent rapid growth and not to comply with Year 2000 requirements. Management believes that the cost of addressing the Year 2000 issue will not have a material adverse impact on the Company's financial condition, provided that all projects currently being undertaken or planned to be undertaken to address the Year 2000 issue are successfully completed prior to January 1, 2000.

Deloitte & Touche

Chartered Accountants
Canada Trust Centre
55 King Street West, Suite 700
Kitchener, Ontario N2G 4W1
Tel: (519) 576-0880
Fax: (519) 576-0209

The Board of Directors and Shareholders of The Descartes Systems Group Inc.

We have audited the accompanying consolidated balance sheets of The Descartes Systems Group Inc. and subsidiaries as of January 31, 1998 and 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended January 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Descartes Systems Group Inc. and subsidiaries as at January 31, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 1998, in conformity with generally accepted accounting principles in the United States.

Kitchener, Ontario
March 6, 1998

DELOITTE & TOUCHE
Chartered Accountants

Deloitte Touche Tohmatsu International

CONSOLIDATED BALANCE SHEETS

In accordance with United States Generally Accepted Accounting Principles
Canadian Dollars

As at January 31	1998	1997
Assets		
Current		
Cash and cash equivalents	$ 37,876,221	$ 3,797,675
Marketable securities (Note 4)	13,870,912	—
Accounts receivable, net of allowance for doubtful accounts of $805,000 (1997 – $250,000)	13,522,796	2,942,338
Investment tax credits receivable (Note 5)	358,914	358,914
Prepaid expenses and deferred charges	4,472,402	100,220
	70,101,245	7,199,147
Capital assets (Note 6)	3,442,195	816,252
Intangible assets (Note 7)	20,838,365	468,001
	$ 94,381,805	$ 8,483,400
Liabilities		
Current		
Bank indebtedness (Note 8)	$ 373,450	$ 995,031
Accounts payable	3,861,202	1,471,534
Accrued liabilities (Note 10)	7,971,972	1,951,140
Income taxes payable	59,218	59,218
Deferred revenue	9,615,232	710,586
	21,881,074	5,187,509
Commitments (Note 16)		
Shareholders' Equity		
Share capital (Note 9)		
Common shares, no par value; unlimited number of shares authorized, 30,404,078 (1997 – 6,530,000) shares issued and outstanding	125,320,515	5,473,656
Additional paid-in capital	52,400	52,400
Cumulative translation adjustments	(355,305)	—
Deficit	(52,516,879)	(2,230,165)
	72,500,731	3,295,891
	$ 94,381,805	$ 8,483,400

See Notes to the Consolidated Financial Statements

Approved by the board:

Mark Lee
Director

James Balsillie
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

In accordance with United States Generally Accepted Accounting Principles
Canadian Dollars

Year ended January 31	1998	1997	1996
Revenue			
Software licenses	$ 12,516,264	$ 2,766,937	$ 4,978,012
Hardware	7,747,970	3,939,233	989,912
Services	9,511,638	2,097,395	2,463,711
	29,775,872	8,803,565	8,431,635
Costs and Expenses			
Cost of revenue	6,504,114	3,345,226	4,039,633
Sales and marketing	7,364,967	2,342,392	1,205,946
Support and services	8,652,029	1,894,077	999,506
Research and development	5,579,214	2,099,781	1,417,456
General and administration including amortization of intangible assets of $2,383,193 (1997 – $29,250, 1996 – $29,250)	4,567,311	1,667,725	421,091
Interest expense (net of interest revenue of $176,831, 1997 – $47,645, 1996 – $Nil)	6,570	(12,126)	46,149
Purchased in-process research and development	46,982,381	—	—
	79,656,586	11,337,075	8,129,781
(Loss) earnings before income taxes	(49,880,714)	(2,533,510)	301,854
Provision for income taxes (Note 15)	406,000	(24,200)	64,700
Net (loss) earnings	$ (50,286,714)	$ (2,509,310)	$ 237,154
(Loss) earnings per share – basic and diluted (Note 14)	$ (5.04)	$ (0.49)	$ 0.05

See Notes to the Consolidated Financial Statements

US GAAP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In accordance with United States Generally Accepted Accounting Principles
Canadian Dollars

	Share Capital (Note 9) Shares	Amount	Additional Paid-In Capital	Cumulative Translation Adjustments	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, February 1, 1995	3,500,000	$ 500,030	$ —	$ —	$ 50,371	$ 550,401
Issuance of shares	750,000	1				1
Dividends on preference shares					(8,380)	(8,380)
Net earnings					237,154	237,154
Balance, February 1, 1996	4,250,000	500,031	—	—	279,145	779,176
Issuance and conversion of special warrants	2,280,000	5,026,025				5,026,025
Charge related to compensation options (Note 12)		(52,400)	52,400			—
Net loss					(2,509,310)	(2,509,310)
Balance, February 1, 1997	6,530,000	5,473,656	52,400	—	(2,230,165)	3,295,891
Issuance of shares on acquisition of DSM (Note 9b)	996,547	6,520,583				6,520,583
Issuance and conversion of special warrants (Note 9b)	5,756,029	19,218,490				19,218,490
Issuance of shares and conversion of special warrants and convertible shares on acquisition of DSR (Note 9b)	9,658,752	47,571,276				47,571,276
Issuance of shares on initial public offering (Note 9b)	7,462,750	46,536,510				46,536,510
Translation adjustments				(355,305)		(355,305)
Net loss					(50,286,714)	(50,286,714)
	30,404,078	$ 125,320,515	$ 52,400	$ (355,305)	$ (52,516,879)	$ 72,500,731

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

In accordance with United States Generally Accepted Accounting Principles
Canadian Dollars

US GAAP

Year ended January 31	1998	1997	1996
Operating Activities			
Net (loss) earnings	$(50,286,714)	$ (2,509,310)	$ 237,154
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	524,088	165,885	87,341
Amortization of intangible assets	2,383,193	29,250	29,250
Write-off of in-process research and development	46,982,381	—	—
Loss on asset disposal	8,329	—	—
Deferred income taxes	—	(24,200)	19,700
Changes in operating assets and liabilities:			
Accounts receivable	(4,589,150)	(1,230,425)	(590,980)
Investment tax credits receivable	—	—	(180,000)
Prepaid expenses and deferred charges	(2,183,624)	(73,878)	(7,972)
Accounts payable	(3,067,364)	877,014	288,443
Accrued liabilities	2,098,383	1,395,429	325,030
Income taxes payable	—	3,323	9,111
Deferred revenue	2,459,619	260,228	301,906
Net cash provided by (used in) operating activities	(5,670,859)	(1,106,684)	518,983
Investing Activities			
Acquisition of DSM, net of cash acquired of $96,491 (Note 3a)	(12,713,749)	—	—
Acquisition of DSR, including bank indebtedness assumed of $158,896 (Note 3b) and net of income tax loss carryforwards applied to reduce goodwill (Note 7)	(4,591,634)	—	—
Purchase of marketable securities	(13,870,912)	—	—
Proceeds from capital asset disposal	19,331	—	—
Purchase of capital assets	(1,967,728)	(600,212)	(334,258)
Net cash used in investing activities	(33,124,692)	(600,212)	(334,258)
Financing Activities			
Proceeds from long-term debt	—	—	328,000
Repayment of long-term debt	—	(369,261)	(422,835)
Net proceeds from issuance of common shares (Note 9b)	73,385,519	5,026,025	1
Redemption of preference shares	—	—	(126,000)
Dividends on preference shares	—	—	(8,380)
Net cash provided by financing activities	73,385,519	4,656,764	(229,214)
Effect of exchange rate changes on cash and cash equivalents	110,159	—	—
Increase (decrease) in cash and cash equivalents	34,700,127	2,949,868	(44,489)
Cash and cash equivalents (bank indebtedness), beginning of year	2,802,644	(147,224)	(102,735)
Net cash and cash equivalents (bank indebtedness), end of year	$ 37,502,771	$ 2,802,644	$ (147,224)
Net cash and cash equivalents (bank indebtedness) is comprised of:			
Cash and cash equivalents	$ 37,876,221	$ 3,797,675	$ —
Bank indebtedness	(373,450)	(995,031)	(147,224)
	$ 37,502,771	$ 2,802,644	$ (147,224)
Supplemental disclosures of cash flow information			
Cash paid during the year for interest	$ 183,401	$ 35,519	$ 46,149
Cash paid during the year for income taxes	$ —	$ —	$ —

See Notes to the Consolidated Financial Statements

1. Description of the business

The Corporation develops, markets and supports a series of supply chain execution software applications developed specifically for the consumer, process and transportation industries.

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, and reflect the following policies:

Basis of presentation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries Descartes Systems MMA, Inc. (formerly known as Michael Mead & Associates, Inc.) ("DSM"), and Descartes Systems Roadshow Inc., (formerly known as Roadshow International, Inc.) ("DSR").

Translation of foreign subsidiaries' accounts

Assets and liabilities of the Corporation's foreign subsidiaries are translated from their local currencies to Canadian dollars at the exchange rate in effect at year-end. Revenues and expenses are translated at the average exchange rate prevailing during the year. The adjustment resulting from translating the financial statements of foreign subsidiaries is recorded as an accumulated translation adjustment in shareholders' equity.

Translation of foreign currency transactions

Transactions incurred in currencies other than the functional currency are converted to the functional currency at the transaction date. Monetary assets and liabilities denominated in a currency other than the functional currency are converted to the functional currency at the exchange rate in effect at each period end. All foreign currency transaction gains or losses have been included in earnings.

Capital assets

The capital assets are recorded at cost, net of accumulated depreciation. Depreciation of capital assets is provided based on the following rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	5 years straight line

Intangible assets

Intangible assets include goodwill, assembled workforce, customer agreements and relationships and existing technologies. Intangible assets that arose on the acquisitions of DSM and DSR are amortized on a straight-line basis over a 5-year period. Intangible assets consisting of goodwill recorded in prior years were amortized on a straight-line basis over a period of 20 years.

Income taxes

The Corporation accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the determination of deferred tax assets and liabilities based on the differences between the financial statement and income tax bases of tax assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The measurement of a deferred tax asset is adjusted by a valuation allowance, if necessary, to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

Research and development

The Corporation incurs costs related to research and development of its software. Research and development costs are expensed as incurred.

Investment tax credits

Investment tax credits are recorded as a reduction of research and development expenses incurred during the year.

Revenue recognition

The Corporation recognizes software license and hardware revenues upon delivery if no significant vendor obligations remain, the sales contract fee is fixed or determinable, amounts are due within one year and collection is probable. Contract sales which do not meet the above criteria are deferred and recognized as revenue when the criteria are met. Third party costs incurred by the Corporation which are directly related to contract sales are deferred until such time as the related revenues are recognized.

Revenue from installation, consulting and customer requested computer software modifications are billed separately and recognized as services are provided. Maintenance fees for customer support are recognized rateably over the contract term.

Cash and equivalents

Investments in highly liquid debt instruments with maturities of 90 days or less as at the purchase date are classified with cash and cash equivalents.

Marketable securities

Debt instruments for which the Corporation does not have the positive intent and ability to hold to maturity are carried at fair value and are designated as "available for sale." At January 31, 1998, all the Corporation's marketable securities were designated as available for sale. Marketable securities were stated at their historical cost at January 31, 1998 as the difference between historical cost and fair value was not material.

Asset impairment

The Corporation reviews the carrying value of intangible and other long-lived assets on a quarterly basis for evidence of impairment. An impairment loss is recognized when the estimate of undiscounted future cash flows generated by such assets is less than the carrying amount. Measurement of the impairment loss is based on the present value of the expected future cash flows.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates and assumptions.

New accounting pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") in the United States issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and presentation of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. The statement requires all items that are required to be recognized under accounting standards as components of comprehensive income be reported separately from the Corporation's accumulated deficit balance in a financial statement that is presented with the same prominence as other financial statements.

SFAS No. 130 will be adopted for the consolidated financial statements for the year ending January 31, 1999. The Corporation does not believe the implementation of this statement will have a material effect on the consolidated financial statements.

3. Acquisitions

a) *Acquisition of DSM*

Effective February 1, 1997, the Corporation completed the acquisition of 100% of the outstanding shares of DSM, a software developer located in Dallas, Texas for approximately $13,200,000 US ($18,200,000 CDN). The acquisition was accounted for using the purchase method. Approximately 78% of the purchase price was paid at closing by a cash payment of approximately $8,100,000 US ($11,178,000 CDN) and the issuance of 135,893 common shares of the Corporation valued at $496,000. A portion of the balance of the purchase price ($360,000 US or $496,000 CDN) will be paid in cash over the holdback period to March 1999. The remaining portion was satisfied through the issuance of 860,654 common shares effective January 30, 1998, valued at $6,024,578 CDN. The consolidated financial statements included the financial results of DSM for the year ended December 31, 1997. The accounting for the business combination can be summarized as follows:

Cash, share consideration and acquisition costs	$ 19,066,730
In-process research and development	13,235,147
Intangible assets other than goodwill	2,249,947
Net liabilities assumed	(3,060,748)
	12,424,346
Goodwill	$ 6,642,384

b) *Acquisition of DSR*

Effective October 1, 1997, the Corporation acquired 100% of the outstanding shares of DSR. In exchange for the DSR shares, Descartes issued 5,306,209 common shares, 2,592,393 Class X convertible shares and made cash payments totalling $1,455,290 for total consideration of $41,892,055. The Class X convertible shares were automatically converted into common shares following the final receipt of a final prospectus dated January 8, 1998. The consolidated financial statements include the financial results of DSR for the three months ended December 31, 1997. The purchase price was allocated as follows:

Cash, share consideration and acquisition costs	$ 45,275,503
In-process research and development	33,747,234
Intangible assets other than goodwill	8,243,341
Net liabilities assumed	(2,738,958)
	39,251,617
Goodwill	$ 6,023,886

c) In-process research and development

In connection with the acquisitions of DSM and DSR, the Corporation has expensed purchased in-process research and development of $46,982,381. At the date of each acquisition, the Corporation determined that certain technologies acquired had not reached technological feasibility and that there were no alternative future uses for the technologies acquired. The Corporation expects to make a significant investment over the next few years in order to establish the technological feasibility of the acquired technologies.

d) Supplemental pro forma results of operations

The following table presents pro forma revenue, net loss and loss per share as if the Corporation had acquired DSM and DSR effective February 1, 1997 and February 1, 1996. Both years presented include expenses of purchased in-process research and development of $46,982,381 and amortization of intangible assets of $4,523,276.

	Year ended January 31 1998	1997
Revenue	$ 49,111,084	$ 40,991,927
Net loss	$ (51,662,691)	$ (57,616,810)
Loss per share	$ (4.30)	$ (5.91)

4. Marketable securities

	January 31 1998	1997
Bonds		
Imasco Ltd. callable, 10.50% coupon, 4.10% yield, due April 28, 1998	$ 2,604,945	$ —
CXY, 7.70% coupon, 4.261% yield, due May 7, 1998	9,238,659	—
	11,843,604	—
Funds		
Lancaster Investment Counsel	2,027,308	—
	$ 13,870,912	$ —

The investment with Lancaster Investment Counsel ("Lancaster") represents the Corporation's pro rata share (0.264%) of a pooled investment fund managed by Lancaster. The fund is comprised primarily of Canadian treasury bills, discount corporate paper, term deposits, bonds and bankers acceptances. Lancaster is a subsidiary of a major Canadian chartered bank.

5. Investment tax credits receivable

The Corporation filed scientific research and experimental development claims in respect of the 1984 to 1996 fiscal years in conjunction with its Canadian corporate tax returns. These claims, which are subject to audit by Revenue Canada Taxation, give rise to investment tax credits (ITCs). The Corporation has recorded $358,914 of the ITCs which qualify for a cash refund.

6. Capital assets

	January 31 1998	1997
Cost		
Leasehold improvements	$ 391,301	$ 116,773
Computer equipment	3,498,542	916,310
Furniture and fixtures	468,452	168,635
	4,358,295	1,201,718
Accumulated depreciation		
Leasehold improvements	53,274	24,320
Computer equipment	775,053	309,040
Furniture and fixtures	87,773	52,106
	916,100	385,466
	$ 3,442,195	$ 816,252

7. Intangible assets

	January 31 1998	1997
Cost		
Goodwill	$ 12,260,270	$ 585,001
Assembled workforce	4,582,754	—
Customer agreements and relationships	2,320,202	—
Existing technology	3,590,332	—
	22,753,558	585,001
Accumulated amortization		
Goodwill	1,053,034	117,000
Assembled workforce	383,935	—
Customer agreements and relationships	116,010	—
Existing technology	362,214	—
	1,915,193	117,000
	$ 20,838,365	$ 468,001

During the first quarter of the year ended January 31, 1998, the unamortized balance of goodwill at January 31, 1997 in the amount of $468,001 was determined to be impaired based upon the expected future cash flows generated from the Corporation's legacy product. Accordingly, the balance was written off during the first quarter of the year ended January 31, 1998.

In addition, during the fourth quarter, the Corporation reduced the balance of goodwill on the acquisition of DSR by $406,000 representing the subsequent recovery of unrecognized income tax loss carryforwards acquired on the DSR acquisition.

8. Bank indebtedness

Canadian operations

At January 31, 1998, the Corporation has utilized $NIL (January 31, 1997 – $970,000) of an authorized operating line of credit of $3,500,000. The line of credit bears interest at prime plus 0.5% (6.75% at January 31, 1998). The balance is due on demand and is secured by a general assignment of inventory and accounts receivable. The line of credit is subject to compliance with certain covenants and the Corporation is in compliance with the covenants at January 31, 1998.

9. Share capital

	January 31	
	1998	1997
Common shares	$ 125,320,515	$ 5,473,656

The authorized capital of the Corporation consists of an unlimited number of common shares. At January 31, 1998, there were 30,404,078 common shares issued and fully paid (January 31, 1997 – 6,530,000).

a) Year ended January 31, 1997

During the year ended January 31, 1997, the Corporation issued 2,280,000 common shares upon the automatic exercise of an equal number of warrants. The warrants were issued September 18, 1996 and were qualified by a final prospectus dated December 20, 1996. Proceeds, net of issue costs of $673,975, were $5,026,025.

b) Year ended January 31, 1998

On May 7, 1997, the Corporation issued 135,893 shares valued at $496,000, in connection with the acquisition of DSM. A further 860,654 common shares were issued at $7.00 each, effective January 30, 1998 for total consideration of $6,024,578.

On October 14, 1997, the Corporation issued 5,756,029 common shares upon the automatic exercise of an equal number of special warrants. The special warrants were issued May 7, 1997 and were qualified by a final prospectus dated October 3, 1997. The proceeds of $19,218,490, net of issue costs of $1,791,015, were used to finance the acquisition of DSM and for general corporate purposes.

On November 3, 1997, the Corporation issued 2,748,747 common shares for the outstanding shares of common stock of DSR. The common shares were issued at a value of $3.50 US ($4.93 CDN) each. In addition, on November 3, 1997, the Corporation issued 2,437,429 common shares at a value of $3.50 US ($4.93 CDN) per share in exchange for the Class B 10% Junior Cumulative Preferred Stock of DSR.

On November 3, 1997, the Corporation issued 120,032 common shares to former holders of options to acquire shares of common stock of DSR. The common shares were issued at a value of $3.50 US ($4.93 CDN).

On January 6, 1998, the Corporation issued 52,544 common shares valued at $5.50 per share to an officer of the Corporation in satisfaction of a previous employment agreement which entitled the officer compensation on the sale of DSR.

On January 21, 1998, the Corporation issued 4,300,000 common shares upon the automatic conversion of 1,707,627 Special Warrants and 2,592,373 Class X Shares. These securities were previously issued by a private placement on November 3, 1997 for net proceeds of $9,391,948 for the Special Warrants and $14,258,052 for the Class X shares, and were qualified by a final prospectus dated January 8, 1998.

On January 21, 1998, the Corporation issued 7,462,750 common shares in an initial public offering at a price of $7.00, the issuance of which was qualified by a final prospectus dated January 8, 1998. Proceeds of the offering were $46,536,510, net of issuance costs of $5,702,740.

10. Settlement of lawsuit

On May 12, 1997, the Corporation settled a lawsuit with a former employee who had initiated an action against the Corporation on October 16, 1996 claiming the Corporation had not fulfilled the terms of the employment contract. The Corporation issued the former employee 191,781 special warrants in satisfaction of a commitment to issue shares to the employee under the terms of the employment agreement. Each warrant was convertible into one common share or the holder had the option of requiring the Corporation to purchase the warrants for $700,000. On May 26, 1997, the warrants were purchased by the Corporation from the holder thereof. The $700,000 was charged to general and administration expense for the year ended January 31, 1997 in recognition of the liability that existed at January 31, 1997.

11. Stock option plan

The Board of Directors of the Corporation has approved a stock option plan under which options for 1,228,603 common shares may be granted. The following chart summarizes the options outstanding:

Quarter ending	Options outstanding	Expiry date	Exercise price	Vesting attributes
January 31, 1997	475,000	January 30, 2002	$ 2.50	three years, equal quarterly amounts
October 31, 1997	50,000	August 12, 2007	$ 3.65	three years, equal quarterly amounts
	438,500	August 12, 2004	$ 3.65	five years, equal quarterly amounts
	60,000	October 7, 2002	$ 3.65	three years, equal quarterly amounts
January 31, 1998	131,000	November 28, 2002	$ 7.00	three years, equal quarterly amounts
	1,154,500			

No options were exercised during the year. In addition, the Corporation has pledged, subject to shareholder approval, to increase the number of options available for distribution and to issue an aggregate of 797,650 options to new employees.

12. Compensation options

In conjunction with the issuance of common shares (Note 9a) during the year ended January 31, 1997, the Corporation issued the underwriters 228,000 warrants. Each warrant is exercisable for a compensation option. The option price is $2.50 and the options expire on September 18, 1998. An amount of $52,400 has been recorded in additional paid-in capital during the year ended January 31, 1997 as the fair value of these options. No compensation options have been exercised as of January 31, 1998.

13. Stock-based compensation

The Corporation has elected to follow APB 25 and related interpretations in accounting for its employee stock options. Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Corporation had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: volatility factors of the expected market price of the Corporation's common stock of 60% and 0%, and dividend yields of 0% and 0%, for 1998 and 1997, respectively, weighted average expected life of the options ranging from 3 to 10 years, and risk-free interest rates ranging from 5% to 6%.

SFAS 123 requires that, for the pro forma disclosure, the compensation cost based on the fair values of the options at the grant date be amortized over the vesting period. If compensation cost for stock options had been determined based on the fair value at the grant dates for 1998 and 1997 consistent with the method prescribed by SFAS 123, the Corporation's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated on next page.

	Year ended January 31 1998	1997
Net loss		
As per reported	$ (50,286,714)	$ (2,509,310)
Pro forma	$ (50,584,053)	$ (2,511,087)
Loss per share, basic and diluted		
As per reported	$ (5.04)	$ (0.49)
Pro forma	$ (5.07)	$ (0.49)

14. Earnings per share

The Corporation calculates basic and diluted earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is derived by adjusting the basic earnings per share calculation to reflect the effect of securities with dilutive potential. The computation of diluted earnings per share does not include securities with dilutive potential that would have an antidilutive effect on earnings per share.

Basic and diluted earnings (loss) per share are calculated as follows:

	1998	Year ended January 31 1997	1996
Basic earnings per share:			
Numerator			
Net loss	$ (50,286,714)	$ (2,509,310)	$ 237,154
Dividends on preference shares	—	—	(8,380)
Earnings available to common shareholders	$ (50,286,714)	$ (2,509,310)	$ 228,774
Denominator			
Weighted average shares outstanding	9,971,141	5,093,288	4,250,000
Per-share amount	$ (5.04)	$ (0.49)	$ 0.05
Diluted loss per share:			
Numerator			
Net loss	$ (50,286,714)	$ (2,509,310)	$ 237,154
Dividends on preference shares	—	—	(8,380)
Earnings available to common shareholders	$ (50,286,714)	$ (2,509,310)	$ 228,774
Denominator			
Weighted average shares outstanding	9,971,141	5,093,288	4,250,000
Options granted under stock option plan	—	—	—
Compensation options	—	—	—
Adjusted weighted average shares outstanding	9,971,141	5,093,288	4,250,000
Per-share amount	$ (5.04)	$ (0.49)	$ 0.05

The options granted under the stock option plan and the compensation options were excluded in the diluted earnings per share as their inclusion would be antidilutive.

15. Income taxes

The components of the provision for income taxes are as follows:

	Year ended January 31		
	1998	1997	1996
Current:			
Canada	$ —	$ —	$ 45,000
United States	—	95,300	—
Europe	—	—	339,000
Benefit of net operating loss carryforwards	—	(95,300)	(339,000)
	—	—	45,000
Deferred			
Canada	—	(24,200)	19,700
United States	406,000	—	—
Europe	—	—	—
Benefit of net operating loss carryforwards	—	—	—
	406,000	(24,200)	19,700
	$ 406,000	$ (24,200)	$ 64,700

The components of the net deferred tax asset (liability) are as follows:

	Year ended January 31	
	1998	1997
Deferred income tax liabilities		
Merger restructuring costs	$ 1,400,000	$ —
	1,400,000	—
Deferred income tax assets		
Net operating loss – Canada	2,266,000	1,280,000
Net operating loss – United States	2,657,000	—
Net operating loss – Europe	670,000	—
Expenses of public offering	2,026,000	—
Depreciation	58,000	—
Accruals not currently deductible	770,000	—
	8,447,000	1,280,000
Net deferred tax asset	7,047,000	1,280,000
Valuation allowance	(7,047,000)	(1,280,000)
Deferred tax asset, net of valuation allowance	$ —	$ —

The provision for income taxes varies from the expected provision at the statutory rates for the following reasons:

	Year ended January 31 1998	1997	1996
Combined basic federal and provincial income tax rates	44.6%	44.6%	44.6%
Provision (recovery) for income taxes based upon above rates	$ (21,829,000)	$ (825,100)	$ 132,000
Increase (decrease) in income taxes resulting from the following:			
Canadian small business deduction	44,000	44,000	(44,000)
Permanent differences including purchased in-process research and development and amortization of intangibles	21,201,000	(4,000)	16,600
Non-recognition of loss carryforwards in Canada	1,062,000	811,900	—
Effect of lower effective tax rates in foreign countries	(81,000)	—	—
Other	9,000	(51,000)	(39,900)
Provision (recovery) for income taxes	$ 406,000	$ (24,200)	$ 64,700

The Corporation and its subsidiaries have combined income tax loss carryforwards of approximately $14,136,000 which expire as follows:

Expiry year	Canada	United States	Europe	Total
2004	$ 1,456,000	$ —	$ —	$ 1,456,000
2005	3,521,000	—	—	3,521,000
2006	103,000	—	—	103,000
2007	—	437,000	—	437,000
2008	—	124,000	—	124,000
2010	—	864,000	—	864,000
2011	—	4,037,000	—	4,037,000
2012	—	1,480,000	—	1,480,000
Indefinite	—	—	2,114,000	2,114,000
	$ 5,080,000	$ 6,942,000	$ 2,114,000	$ 14,136,000

16. Commitments

The Corporation is committed under non-cancellable operating leases for business premises, computer equipment and furniture and fixtures with terms expiring at various dates through 2006. The future minimum amounts payable under the lease agreements are as follows:

1999	$ 1,819,239
2000	1,636,337
2001	1,460,933
2002	1,355,669
2003 and thereafter	5,448,395
	$ 11,720,573

17. Financial instruments

Financial instruments are comprised of cash and cash equivalents, bank indebtedness, marketable securities, accounts receivable, accounts payable and accrued liabilities.

Fair value of financial instruments

At January 31, 1998 and January 31, 1997, the estimated fair value of short-term investments, accounts receivable, accounts payable and accrued liabilities and bank indebtedness was equal to the book value given the short-term nature of the items.

Foreign exchange risk

Foreign exchange risk is the risk that exchange rates will affect the Corporation's operating results. The Corporation is exposed to foreign exchange risk in that substantially all the Corporation's sales contracts are denominated in US dollars while approximately 66% of the Corporation's expenditures are incurred in US dollars.

Credit risk

The Corporation is exposed to credit risk through cash and short-term investments and accounts receivable. The Corporation holds its cash and short-term investments positions with reputable financial institutions and in high quality or guaranteed short-term financial instruments. Accounts receivable credit risk is mitigated by the Corporation's large customer base and the dispersion of customers among industries and geographical locations.

18. Segmented information

Revenues are segmented according to the geographic location in which the customer is located:

Year ended	Canada	United States	Latin America	Other Foreign	Consolidated
January 31, 1998	$ 2,082,555	$ 23,679,242	$ 2,400,128	$ 1,613,947	$ 29,775,872
January 31, 1997	998,014	6,060,799	1,663,143	81,609	8,803,565
January 31, 1996	3,740,530	3,860,795	537,004	293,306	8,431,635

Net earnings and assets at each period end are segmented on a corporate basis:

Year ended	Canada	United States	Europe	Inter-segment adjustments	Consolidated
January 31, 1998					
Net earnings	$ (43,372,961)	$ (7,273,934)	$ (589,330)	$ 949,511	$ (50,286,714)
Depreciation and amortization	2,735,765	145,832	25,684	—	2,907,281
Assets at year-end	86,257,768	25,895,196	698,362	(18,469,521)	94,381,805
January 31, 1997					
Net earnings	(2,509,310)	—	—	—	(2,509,310)
Depreciation and amortization	195,135	—	—	—	195,135
Assets at year-end	8,483,400	—	—	—	8,483,400
January 31, 1996					
Net earnings	228,774	—	—	—	228,774
Depreciation and amortization	116,591	—	—	—	116,591
Assets at year-end	2,976,345	—	—	—	2,976,345

19. Subsequent event

On February 4, 1998, the Corporation executed a Stock Issuance and Escrow Agreement (the "Stock Agreement") and employment agreements with six individuals resident in the United States. Pursuant to the Stock Agreement, the Corporation issued to the individuals a total of 406,000 common shares, valued at $7.00 per share, of which 365,400 shares were held in escrow by the Corporation. The shares are to be released from escrow as follows: one third on February 4, 1999 if the individual is still employed on that date; one third on February 4, 2000 and 2001 if the individual is still an employee on February 4, 2000. The value of the shares held in escrow will be treated as deferred compensation and amortized over a two-year period.

(in Canadian dollars, unless otherwise indicated, and in accordance with Canadian GAAP)

These results should be read in conjunction with the Company's audited consolidated financial statements and notes thereto presented in accordance with Canadian generally accepted accounting principles. The Company has historically prepared and filed its financial statements in accordance with Canadian GAAP. During fiscal 1998, the Company began preparing and reporting its financial statements in accordance with US GAAP, in addition to reporting in Canadian GAAP. This change in reporting was made to reflect accounting rules familiar to many of the Company's institutional investors who routinely invest in NASDAQ listed technology companies reporting in US GAAP together with the Company's customers and industry and financial analysts who are more familiar with US GAAP. US GAAP presentation is also more consistent with the financial presentation of the Company's industry counterparts and competitors.

Overview

The Descartes Systems Group Inc. develops, markets and supports supply chain execution software products and related services for the consumer, process and transportation industries. Supply chain execution software improves efficiencies in managing complex order-to-delivery processes for companies that operate with short time-to-plan horizons and require rapid response to changes in demand. Descartes products are used by over 800 customers in more than 45 countries worldwide. Over 35 industries are listed among the company's customer base, with significant representation from beverage and food-related segments.

Selected Consolidated Financial Information

($ thousands) except per share amounts	1997–1998 % increase	% Revenue	1998	% Revenue	1997
Revenue	238%	100%	$ 29,776	100%	$ 8,803
Cost of revenue	94%	22%	6,504	38%	3,345
Gross margin	326%	78%	$ 23,272	62%	$ 5,458
Expenses					
Sales and marketing	214%	24%	$ 7,260	26%	$ 2,309
Professional services	362%	28%	8,439	21%	1,827
General and administration	131%	7%	2,137	11%	923
Net research and development	165%	18%	5,420	23%	2,049
	227%	78%	$ 23,256	81%	$ 7,108
Earnings (loss) before items below			$ 16		$ (1,650)
Depreciation			524		166
Goodwill amortization			16,092		29
Foreign exchange loss on consolidation			355		0
Net interest expense (revenue)			7		(12)
Earnings (loss) before income taxes			$ (16,962)		$ (1,833)
Income taxes			0		(24)
Net loss			$ (16,962)		$ (1,809)
(Loss) per common share – basic			$ (1.70)		$ (0.36)

Years Ended January 31, 1998 and January 31, 1997

Revenue The Company generates revenues through the licensing of its software products; the sale of third-party hardware and sublicensing of associated software; and through the provision of professional services, including customer support and maintenance, consulting services, software installation, project management, training services, and software customization.

Total revenue increased 238% in fiscal 1998 to $29.8 million from $8.8 million in fiscal 1997 primarily as a result of an increase in software license revenues and related services revenue. Revenues from software and services increased by 353% to $22.0 million in fiscal 1998 from $4.8 million in fiscal 1997. Software license and services revenues increased as a result of growing acceptance of the Company's software solutions, the introduction of its latest product, *Energy* v.6, and the expansion of the Company's products, sales force and international infrastructure through the acquisition of Roadshow International, Inc. which was completed in the fourth quarter of fiscal 1998.

Although the Company witnessed a trend toward hardware sales declining as a percentage of total revenue, from 45% in fiscal 1997 to 26% in fiscal 1998, hardware sales increased in absolute terms in fiscal 1998 by 97% to $7.7 million from $3.9 million in fiscal 1997. The Company expects that hardware sales may continue to decline as a percentage of total revenue, while continuing to increase in absolute terms. Descartes' products are increasingly being targeted to Fortune 1000 companies which can independently source hardware cheaply and effectively directly from the manufacturer. As a result, the Company expects to generate a declining portion of its revenues from hardware sales and a greater proportion from software licenses and services revenue in the future. The Company believes that a reduction in hardware revenues as a percentage of total revenues will yield higher gross margins as such hardware revenues are supplanted by higher margin software license and services revenue.

North American revenues as a percentage of total revenues increased from 80% in fiscal 1997 to 87% in fiscal 1998. International revenues (revenues outside of North America) decreased as a percentage of total revenue from 20% in fiscal 1997 to 13% in fiscal 1998 while increasing in absolute terms by 130% from $1.7 million in fiscal 1997 to $4.0 million in fiscal 1998. The absolute increase in international license revenues resulted from sales made through the Company's international infrastructure acquired through Roadshow International, Inc. while the decline in international revenues as a percentage of total revenues reflects growth in revenues from within North America rather than a tapering off of international business.

Sales outside of Canada represented 93% of total sales in fiscal 1998 versus 89% in the previous year, growing by 255% to $27.7 million this year.

Cost of Revenue The Company incurs variable costs related to the sales of third-party hardware and software as well as certain license fees to suppliers, royalties and agent commissions. As a percentage of revenue, cost of revenue can vary significantly, depending largely on the proportion of lower-margin hardware sales to total revenues.

Total cost of revenue increased 94% to $6.5 million in fiscal 1998 from $3.3 million in fiscal 1997, but decreased as a percentage of revenues to 22% from 38%. The absolute increase in cost of revenue reflects the increased revenues of the Company in fiscal 1998, while the relative decline of cost of revenue reflects the decline in sales of lower-margin hardware as a percentage of overall sales in favor of software license and related services revenues. This trend is expected to continue, although less steeply, as the Company focuses its sales force on target markets for the sale of licenses of its next generation of *Energy*™ software suite and related services.

Sales and Marketing Selling and marketing expense consists of salaries, sales commissions, travel and other expenses required to implement the Company's sales and marketing plans. Advertising, trade shows and promotional programs are included in this expense. Sales and marketing expense increased 214% to $7.3 million in fiscal 1998 from $2.3 million in fiscal 1997, but decreased slightly as a percentage of revenue to 24% from 26%. The absolute increase in expenses was principally a result of the expansion of the Company's sales and marketing group from 12 employees at the close of fiscal 1997 to 46 at the end of fiscal 1998, along with investments made to support new geographic markets in Europe and Central and South America.

Professional Services Professional service expense consists of salaries for and expenses incurred by consultants, project managers, telephone support personnel, and other technical staff in the course of supporting and implementing the Company's software products. Professional service expense increased 362% to $8.4 million in fiscal 1998 from $1.8 million in fiscal 1997, and increased as a percentage of revenue to 28% from 21%. Increased professional service spending reflects the addition of staff as headcount increased to 133 at the end of fiscal 1998 from 28 a year earlier. In addition, travel costs associated with supporting a larger customer base increased professional services costs.

Research and Development Research and development expense consists of salaries, and equipment associated with the Company's product development activities. Gross research and development expense increased 165% to $5.4 million in fiscal 1998 from $2.0 million in fiscal 1997 but decreased to 18% of revenues from 23% in fiscal 1997. The absolute increase in R&D costs reflect the addition of staff working on development of the Company's next generation of software products. The R&D headcount was 74 at the end of fiscal 1998 compared to 27 at the end of fiscal 1997. All R&D figures are net of government assistance. The Company's R&D expenditures have not been capitalized and the Company expects to continue expensing R&D costs as incurred.

General and Administration General and administration expense consists of salaries for the finance department and certain of the Company's executive officers and general administrative and office costs. General and administration expense increased 131% to $2.1 million in fiscal 1998, but decreased as a percentage of revenue to 7% from 11%. Expenses increased in absolute terms as the administrative headcount rose to 41 at the end of fiscal 1998 from 7 a year earlier, and due to the increased use of professional services and other costs associated with public reporting and an increase in directors and officers liability insurance premiums associated with the Company's listing on the Toronto Stock Exchange. The increase in headcount in administration reflects the infrastructure required to support the growth of the Company over the past year.

Income Taxes Descartes has income tax loss carryforward of about $14.1 million. (See Note 10 of the audited consolidated financial statements Canadian GAAP.)

Acquisitions

The Company completed two acquisitions in fiscal 1998 designed to i) broaden the footprint of the Company's *Energy* supply chain execution suite—effectively completing the suite for the Company's core vertical markets and at the same time increasing the Company's range of component offerings ii) increase the Company's installed customer base to facilitate cross and incremental selling opportunities and iii) provide an international infrastructure to support global sales to Fortune 1000 accounts.

The Company acquired Michael Mead & Associates, Inc. effective January 1, 1997 for approximately $15.3 million in stock and cash. Following closing, the name of Michael Mead & Associates, Inc. was changed to Descartes Systems MMA, Inc. ("DSM"). DSM was a competitor of the Company's with expertise in mobile computing, and with particular

emphasis on the baked goods industry. DSM's results for the 12 months ending December 31, 1997 are included in the fiscal 1998 consolidated financial statements. Under Canadian GAAP, the DSM acquisition yielded goodwill of $19.2 million which the Company is amortizing over eight quarters. To date, the Company has amortized $9.6 million of the goodwill.

The Company acquired Roadshow International, Inc. effective October 1, 1997 for approximately $41.9 million in a share exchange transaction with a $1.5 million cash component. Following the acquisition, the name of Roadshow International, Inc. was changed to Descartes Systems Roadshow, Inc. ("DSR"). DSR was the leading provider of cross-industry dynamic vehicle routing and scheduling software designed to optimize the use of a private fleet of trucks, including wireless mobile computing capability. DSR's results have been consolidated effective October 1, 1997. Under Canadian GAAP, the DSR acquisition yielded goodwill of $48.0 million which the Company is amortizing over eight quarters. To date, the Company has amortized $6.0 million of the goodwill.

Net Earnings

The goodwill resulting from the two acquisitions completed by the Company in fiscal 1998 have generated significant non-cash expenses. Accordingly, the Company's net loss in fiscal 1998 increased to $17.0 million or $(1.70) per share compared to a net loss of $1.8 million or $(0.36) per share for the previous year, principally as a result of the $16.1 million increase in amortization expense. In addition to goodwill amortization expenses, the Company experienced higher depreciation costs resulting from the purchase of computer equipment required to support a growing employee base.

Given the extraordinary non-cash expenses associated with goodwill generated through the Company's acquisitions in fiscal 1998, the Company has been reporting earnings on an EBITDA basis (earnings before interest, taxes, depreciation and amortization) as a measure of its operating performance. Earnings before interest income, taxes, depreciation, amortization of goodwill, and foreign exchange were $15,518 in fiscal 1998 compared to a loss of $1.7 million in fiscal 1997. Amortization of goodwill increased from $29,250 in fiscal 1997 to $16.1 million in fiscal 1998, primarily as a result of the Company's acquisitions. Depreciation of capital assets increased 216% to $524,088 in fiscal 1998 resulting from the purchases of computer equipment.

Liquidity and Capital Resources

The Company raised net cash of $73.4 million in fiscal 1998 through private placements on May 7, 1997, November 3, 1997 and an initial public offering on January 21, 1998. Descartes applied cash of $17.3 million towards acquisitions during the fiscal year.

In fiscal 1998, Descartes utilized net cash of $2.0 million for capital expenditures which consisted primarily of computer hardware and software utilized in research and development, selling, and training. The remaining expenditures were for fixed assets such as leasehold improvements, furniture and fixtures related to the expansion of the Company's facilities to accommodate a growing employee base. Capital expenditures totalled $0.6 million in fiscal 1997.

In fiscal 1999 and over the next few years, Descartes intends to acquire new corporate information systems to manage the Company's worldwide financial, accounting and production functions; to make leasehold improvements to accommodate personnel growth and expansion of its Waterloo headquarters; and to acquire new computers and other equipment for the growing employee base.

At January 31, 1998, the Company had an authorized operating line of credit of $3.5 million bearing interest at prime plus 0.5% (6.75% at January 31, 1998). The balance is due on demand and is secured by a general assignment of inventory and accounts receivable. The Company had not utilized any of this facility at January 31, 1998.

The Company has no long-term debt. Based on current business plans, cash on hand and from operations should be more than adequate to fund the Company's financial requirements through the 1999 fiscal year.

Descartes regularly evaluates acquisitions of businesses, products or technologies that complement its business. Any such transaction, if completed, would likely use a portion of the Company's working capital or require the issuance of additional equity.

Year 2000

The Company has been actively addressing the Year 2000 issue since 1996. The Year 2000 issue has arisen as many computer systems were designed with two-year date codes and may misinterpret dates with the year "2000" as the year "1900." The Company is addressing the Year 2000 issue in respect of both its products and its internal computer systems.

All products currently marketed by the Company are Year 2000 compliant in that they can properly identify dates ending with the Year 2000 and beyond. All installed versions of the Company's supply chain management software from version 5.02 forward are also Year 2000 compliant. A small number of the Company's customers still operate version 5.01 of Descartes' supply chain management suite which is not Year 2000 compliant. These customers are being upgraded to version 5.02 of the software. In addition, all Windows-based versions of the Company's software marketed under the ROADSHOW trademark are Year 2000 compliant. The Company also understands from those companies who supply the software used to develop the latest version of the Company's software suite that such development software does not contain any Year 2000 limiting factors.

Internal computer systems within the Company which are not currently Year 2000 compliant are expected to be either converted or replaced by the end of fiscal 1999. As part of the Company's ongoing strategy to upgrade its internal systems, the Company is currently upgrading its financial and accounting software on a worldwide basis. This new system, which is fully Year 2000 compliant, is expected to be in place no later then the end of fiscal 1999. The Company is currently conducting an assessment of other internal computer systems to determine whether such systems are Year 2000 compliant. On completion of this task, management will determine whether additional systems need upgrading or modification to address the Year 2000 issue. The cost of the Company's new financial and accounting system is approximately $375,000 US. Upgrading internal systems was necessitated by the Company's recent rapid growth and not to comply with Year 2000 requirements. Management believes that the cost of addressing the Year 2000 issue will not have a material adverse impact on the Company's financial condition, provided that all projects currently being undertaken or planned to be undertaken to address the Year 2000 issue are successfully completed prior to January 1, 2000.

Deloitte & Touche

Chartered Accountants
Canada Trust Centre
55 King Street West, Suite 700 Tel: (519) 576-0880
Kitchener, Ontario N2G 4W1 Fax: (519) 576-0209

To the Shareholders of The Descartes Systems Group Inc.

We have audited the consolidated balance sheets of The Descartes Systems Group Inc. as at January 31, 1998 and January 31, 1997 and the related consolidated statements of operations and deficit and changes in cash resources for years ended January 31, 1998 and January 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 1998 and January 31, 1997 and the results of its operations and the changes in its financial position for the years ended January 31, 1998 and January 31, 1997 in accordance with generally accepted accounting principles.

Kitchener, Ontario
March 6, 1998

DELOITTE & TOUCHE
Chartered Accountants

Deloitte Touche
Tohmatsu
International

Canadian GAAP

CONSOLIDATED BALANCE SHEETS

In accordance with Canadian Generally Accepted Accounting Principles
Canadian Dollars

As at January 31	1998	1997
Assets		
Current		
Cash	$ 3,080,080	$ —
Short-term investments (Note 4)	48,667,053	3,797,675
Accounts receivable	13,522,796	2,942,338
Investment tax credits receivable (Note 5)	358,914	358,914
Prepaid expenses and deferred charges	4,472,402	100,220
	70,101,245	7,199,147
Capital assets (Note 6)	3,442,195	816,252
Intangible assets (Note 7)	51,634,797	468,001
	$ 125,178,237	$ 8,483,400
Liabilities		
Current		
Bank indebtedness (Note 8)	$ 373,450	$ 995,031
Accounts payable and accrued liabilities	11,833,174	2,722,674
Income taxes payable	59,218	59,218
Deferred revenue	9,615,232	710,586
	21,881,074	4,487,509
Shareholders' Equity		
Share capital (Note 9)	122,489,724	5,526,056
Deficit	(19,192,561)	(1,530,165)
	103,297,163	3,995,891
	$ 125,178,237	$ 8,483,400

See Notes to the Consolidated Financial Statements

Approved by the board:

Mark Lee
Director

James Balsillie
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

In accordance with Canadian Generally Accepted Accounting Principles
Canadian Dollars

Year ended January 31	1998	1997
Revenue		
Software licenses	$ 12,516,264	$ 2,766,937
Hardware	7,747,970	3,939,233
Services	9,511,638	2,097,395
	29,775,872	8,803,565
Costs and Expenses		
Cost of revenue	6,504,114	3,345,226
Sales and marketing	7,364,967	2,342,392
Support and services	8,652,029	1,894,077
Research and development	5,579,214	2,099,781
General and administration including amortization of goodwill of $16,091,951 (1997 – $29,250)	18,276,069	967,725
Interest (net of interest revenue of $176,831; 1997 – $47,645)	6,570	(12,126)
Unrealized exchange loss on translation of foreign subsidiaries	355,305	—
Earnings before income taxes	(16,962,396)	(1,833,510)
Provision for income taxes (Note 10)		
Current	—	—
Deferred	—	(24,200)
	—	(24,200)
Net (loss) earnings	(16,962,396)	(1,809,310)
(Deficit) retained earnings, beginning of year	(1,530,165)	279,145
Warrant repurchase (Note 9b)	(700,000)	—
(Deficit), end of year	$ (19,192,561)	$ (1,530,165)
Earnings per share – basic	$ (1.70)	$ (0.36)

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES

In accordance with Canadian Generally Accepted Accounting Principles
(Canadian Dollars)

Year ended January 31	1998	1997
Operating Activities		
Net earnings	$ (16,962,396)	$ (1,809,310)
Items not requiring cash		
Depreciation	524,088	165,885
Amortization of intangible assets	16,091,951	29,250
Loss on capital asset disposal	8,329	—
Deferred income taxes	—	(24,200)
	(338,028)	(1,638,375)
Changes in non-cash working capital components		
Accounts receivable	(4,589,150)	(1,230,425)
Prepaid expenses and deferred charges	(2,183,624)	(73,878)
Accounts payable and accrued liabilities	196,483	1,572,443
Income taxes payable	—	3,323
Deferred revenue	2,459,619	260,228
	(4,454,700)	(1,106,684)
Financing Activities		
Repayment of long-term debt	—	(369,261)
Issuance of common shares (Note 9)	116,963,668	5,026,025
Due to former DSM shareholders	231,915	—
Warrant repurchase (Note 9b)	(700,000)	—
	116,495,583	4,656,764
Investing Activities		
Acquisition of DSM, net of cash acquired of $96,491 (Note 3a)	(16,087,048)	—
Acquisition of DSR, including bank indebtedness assumed of $158,896 (Note 3b)	(45,434,399)	—
Purchase of short-term investments, net	(44,869,378)	(3,797,675)
Proceeds from capital asset disposal	19,331	—
Purchase of capital assets	(1,967,728)	(600,212)
	(108,339,222)	(4,397,887)
Net cash flow	3,701,661	(847,807)
Net (bank indebtedness), beginning of the year	(995,031)	(147,224)
Net cash (bank indebtedness), end of year	$ 2,706,630	$ (995,031)
Net cash (bank indebtedness) is comprised of:		
Cash	$ 3,080,080	$ —
Bank indebtedness	(373,450)	(995,031)
	$ 2,706,630	$ (995,031)

See Notes to the Consolidated Financial Statements

1. Description of the business

The Corporation develops, markets and supports a series of supply chain execution software applications developed specifically for the consumer, process and transportation industries.

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

Basis of presentation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries Descartes Systems MMA, Inc. (formerly known as Michael Mead & Associates, Inc.) ("DSM"), and Descartes Systems Roadshow Inc., (formerly known as Roadshow International, Inc.) ("DSR").

Translation of foreign subsidiaries' accounts

Monetary assets and liabilities of the Corporation's foreign subsidiaries are translated from their local currencies to Canadian dollars at the exchange rate in effect at year-end. Non-monetary assets are translated at the historical exchange rate on the date of acquisition. Revenues and expenses are translated at the average exchange rate prevailing during the year. The exchange gain or loss resulting from translation of foreign subsidiaries' accounts is included in earnings.

Translation of foreign currency transactions

Transactions incurred in currencies other than the functional currency are converted to functional currency at the transaction date. Monetary assets and liabilities denominated in a currency other than the functional currency are converted to the functional currency at the exchange rate in effect at each period end. All foreign currency transaction gains or losses have been included in earnings.

Capital assets

The capital assets are recorded at cost. Depreciation of the capital assets is recorded at the following rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	5 years straight line

Intangible assets

Intangible assets represent goodwill. Goodwill that arose on the acquisitions of DSM and DSR is amortized over a 24-month period. Goodwill recorded in prior years was amortized on a straight-line basis over a period of 20 years. The unamortized balance of prior years' goodwill at January 31, 1997 was expensed in the year ended January 31, 1998.

Income taxes

The Corporation records income taxes on the tax allocation method. Under this method, full provision is made for income taxes related to income currently recognized for accounting purposes but deferred for income tax purposes.

Research and development

The Corporation incurs costs related to research and development of its software. Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria for deferral and the recovery of such costs is reasonably assured.

Canadian GAAP

Investment tax credits

Investment tax credits are recorded as a reduction of research and development expenses incurred during the year. If the development costs meet the criteria for deferral, the investment tax credits are recorded as a reduction of the deferred development costs.

Revenue recognition

The Corporation recognizes software license and hardware revenues upon delivery if no significant vendor obligations remain, the sales contract fee is fixed or determinable, amounts are due within one year and collection is probable. Contract sales which do not meet the above criteria are recorded as deferred revenue. Third party costs incurred by the Corporation which are directly related to contract sales are deferred until such time as the related revenues are recognized.

Revenues from installation, consulting and customer requested computer software modifications are billed separately and recognized as services are provided. Maintenance fees for customer support are recognized rateably over the contract term.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates and assumptions.

3. Acquisitions

a) Acquisition of DSM

Effective February 1, 1997, the Corporation completed the acquisition of 100% of the outstanding shares of DSM, a software developer located in Dallas, Texas for approximately $11,100,000 US ($15,300,000 CDN). The acquisition was accounted for using the purchase method. Approximately 78% of the purchase price was paid at closing by a cash payment of approximately $8,100,000 US ($11,178,000 CDN) and the issuance of 135,893 common shares of the Corporation valued at $496,000. A portion of the balance of the purchase price ($360,000 US or $496,000 CDN) will be paid in cash over the holdback period to March 1999 with the remaining portion satisfied through the issuance of 860,654 common shares, valued at $3,141,384 CDN. The consolidated financial statements included the financial results of DSM for the year ended December 31, 1997. The accounting for the business combination can be summarized as follows:

Cash, share consideration and acquisition costs	$ 16,183,539
Assigned value of net assets of DSM	
Current assets	1,132,951
Capital assets	33,122
Current liabilities	(4,226,821)
	(3,060,748)
Excess of consideration over net assets of DSM (goodwill)	$ 19,244,287

b) *Acquisition of DSR*

Effective October 1, 1997, the Corporation acquired 100% of the outstanding shares of DSR. In exchange for the DSR shares, Descartes issued 5,306,209 common shares, 2,592,393 Class X convertible shares and made cash payments totalling $1,455,290 for total consideration of $41,892,055. The Class X convertible shares were automatically converted into common shares following the final receipt of the final prospectus dated January 8, 1998. The consolidated financial statements include the financial results of DSR for the three months ended December 31, 1997. The purchase price was allocated as follows:

Cash, share consideration and acquisition costs	$ 45,275,503
Assigned value of net assets of DSR	
Current assets	6,720,099
Capital assets	1,441,250
Current liabilities	(10,900,307)
	(2,738,958)
Excess of consideration over net assets of DSR (goodwill)	$ 48,014,461

4. Short-term investments

	1998	1997
Bonds		
Bell Canada, 8.00%, due March 10, 1998	$ 21,497,889	$ —
Canadian Imperial Bank of Commerce, 10.75%, due March 15, 1998	9,172,675	—
CGTN, 7.40%, due March 16, 1998	4,125,577	—
Imasco Ltd. callable, 10.50%, due April 28, 1998	2,604,945	—
CXY, 7.70%, due May 7, 1998	9,238,659	—
Consumers Gas Co. Ltd., 3.80%, due February 6, 1997	—	3,797,675
	46,639,745	3,797,675
Funds		
Lancaster Investment Counsel	2,027,308	—
	$ 48,667,053	$ 3,797,675

The investment with Lancaster Investment Counsel ("Lancaster") represents the Corporation's pro rata share (0.264%) of a pooled investment fund managed by Lancaster. The fund is comprised primarily of treasury bills, discount corporate paper, term deposits, bonds and bankers' acceptances. Lancaster is a subsidiary of a major Canadian chartered bank.

5. Investment tax credits receivable

The Corporation filed scientific research and experimental development claims in respect of the 1984 to 1996 fiscal years in conjunction with the corporate tax returns. These claims, which are subject to audit by Revenue Canada Taxation, give rise to investment tax credits (ITCs). The Corporation has recorded $358,914 of the ITCs which qualify for a cash refund.

6. Capital assets

	January 31 1998	1997
Cost		
Leasehold improvements	$ 391,301	$ 116,773
Computer equipment	3,498,542	916,310
Furniture and fixtures	468,452	168,635
	4,358,295	1,201,718
Accumulated depreciation		
Leasehold improvements	53,274	24,320
Computer equipment	775,053	309,040
Furniture and fixtures	87,773	52,106
	916,100	385,466
	$ 3,442,195	$ 816,252

Depreciation on capital assets amounted to $524,088 (1997 – $165,885).

7. Intangible assets

	January 31 1998	1997
Cost	$ 67,843,748	$ 585,001
Accumulated amortization	16,208,951	117,000
	$ 51,634,797	$ 468,001

The unamortized balance of goodwill at January 31, 1997 in the amount of $468,001 was determined to be impaired during the year ended January 31, 1998 based upon the future cash flows generated from the Corporation's legacy product. Accordingly, the balance was written off during the year ended January 31, 1998.

The Corporation has adopted a 24-month amortization period for the goodwill related to current year acquisitions, which matches the anticipated cash flow benefit associated with the companies acquired. The Corporation does not expect to receive significant incremental cash flow benefit from the acquisitions after the chosen amortization period.

8. Bank indebtedness

Canadian operations

At January 31, 1998, the Corporation has utilized $NIL (January 31, 1997 – $970,000) of an authorized operating line of credit of $3,500,000. The line of credit bears interest at prime plus 1/2% (6.75% at January 31, 1998). The balance is due on demand and is secured by a general assignment of inventory and accounts receivable. The line of credit is subject to compliance with certain covenants and the Corporation is in compliance with the covenants at January 31, 1998.

9. Share capital

	January 31 1998	1997
Common shares	**$ 122,489,724**	$ 5,526,056

The authorized capital of the Corporation consists of an unlimited number of common shares. At January 31, 1998, there were 30,404,078 common shares issued and fully paid (January 31, 1997 – 6,530,000).

a) *Year ended January 31, 1997*

During the year ended January 31, 1997, the Corporation issued 2,280,000 common shares upon the automatic exercise of an equal number of warrants. The warrants were issued September 18, 1996 and were qualified by a final prospectus dated December 20, 1996. Proceeds, net of issue costs of $673,975, were $5,026,025.

b) *Year ended January 31, 1998*

On May 7, 1997, the Corporation issued 135,893 shares valued at $496,000, in connection with the acquisition of DSM. A further 860,654 common shares were issued effective January 30, 1998.

On May 12, 1997 the Corporation reached an agreement with a former employee who had initiated an action against the Corporation claiming the Corporation had not fulfilled the terms of the employment contract. The Corporation issued the former employee 191,781 special warrants in satisfaction of a commitment to issue shares to the employee under the terms of the employment agreement. Each warrant is convertible into one common share or the holder has the option of requiring the Corporation to purchase the warrants for $700,000. On May 26, 1997 the warrants were purchased by the Corporation from the holder thereof, with the amount charged to retained earnings.

On October 14, 1997, the Corporation issued 5,756,029 common shares upon the automatic exercise of an equal number of special warrants. The special warrants were issued May 7, 1997 and were qualified by a final prospectus dated October 3, 1997. The proceeds of $19,228,336, net of issue costs of $1,781,170, were used to finance the acquisition of DSM and for general corporate purposes.

On November 3, 1997, the Corporation issued 2,748,747 common shares for the outstanding shares of common stock of DSR. The common shares were issued at a value of $3.50 US each. In addition, on November 3, 1997, the Corporation issued 2,437,429 common shares at a value of $3.50 US per share in exchange for the Class B 10% Junior Cumulative Preferred Stock of DSR.

On November 3, 1997, the Corporation issued 120,032 common shares to former holders of options to acquire shares of common stock of DSR. The common shares were issued at a value of $3.50 US.

On January 6, 1998, the Corporation issued 52,544 common shares valued at $5.50 per share to an officer of the Corporation in satisfaction of a previous employment agreement which entitled the officer compensation on the acquisition of DSR.

On January 21, 1998, the Corporation issued 4,300,000 common shares upon the automatic conversion of 1,707,627 Special Warrants and 2,592,373 Class X Shares. These securities were previously issued by a private placement on November 3, 1997 for net proceeds of $9,391,948 for the Special Warrants and $14,258,052 for the Class X shares, and were qualified by a final prospectus dated January 8, 1998.

On January 21, 1998, the Corporation issued 7,462,750 common shares in an initial public offering at a price of $7.00, the issuance of which was qualified by a final prospectus dated January 8, 1998. Proceeds of the offering were $46,468,685, net of issuance costs of $5,770,565.

10. Income taxes

The provision for income taxes varies from the expected provision at the statutory rates for the following reasons:

	January 31 1998	1997
Combined basic federal and provincial rates	**44.6%**	44.6%
Recovery of income taxes based on the above rates	**$ (7,569,000)**	$ (825,100)
Increase (decrease) in income taxes resulting from the following:		
Small business deduction	**44,000**	44,000
Permanent differences including amortization of goodwill	**7,364,000**	(4,000)
Application of US loss carryforwards	**(830,000)**	—
Non-recognition of Canadian loss carryforwards	**1,062,000**	811,900
Other	**(71,000)**	(51,000)
Provision (recovery) for income taxes	**$ —**	$ (24,200)

The Corporation and its subsidiaries have combined income tax loss carryforwards of approximately $14,136,000 which expire as follows:

Expiry year	Canada	United States	Europe	Total
2004	$ 1,456,000	$ —	$ —	$ 1,456,000
2005	3,521,000	—	—	3,521,000
2006	103,000	—	—	103,000
2007	—	437,000	—	437,000
2008	—	124,000	—	124,000
2010	—	864,000	—	864,000
2011	—	4,037,000	—	4,037,000
2012	—	1,480,000	—	1,480,000
Indefinite	—	—	2,114,000	2,114,000
	$ 5,080,000	$ 6,942,000	$ 2,114,000	$ 14,136,000

No recognition has been given to the potential benefit of this item when preparing these financial statements.

11. Commitments

The Corporation is committed under non-cancellable operating leases for business premises, computer equipment and furniture and fixtures with terms expiring at various dates through 2006. The future minimum amounts payable under the lease agreements are as follows:

1999	$ 1,819,239
2000	1,636,337
2001	1,460,933
2002	1,355,669
2003 and thereafter	5,448,395
	$ 11,720,573

12. Stock option plan

The Board of Directors of the Corporation has approved a stock option plan under which options for 1,228,603 common shares may be granted. The following chart summarizes the options outstanding:

Quarter ending	Options outstanding	Expiry date	Exercise Price	Vesting attributes
January 31, 1997	475,000	January 30, 2002	$ 2.50	three years, equal quarterly amounts
October 31, 1997	50,000	August 12, 2007	$ 3.65	three years, equal quarterly amounts
	438,500	August 12, 2004	$ 3.65	five years, equal quarterly amounts
	60,000	October 7, 2002	$ 3.65	three years, equal quarterly amounts
January 31, 1998	131,000	November 28, 2002	$ 7.00	three years, equal quarterly amounts
	1,154,500			

No options were exercised during the year. In addition, the Corporation has pledged, subject to shareholder approval, to increase the number of options available for distribution and to issue an aggregate of 797,650 options to new employees.

13. Compensation options

In conjunction with the issuance of special warrants exchangable common shares (Note 9a) during the year ended January 31, 1997, the Corporation issued the underwriters 228,000 warrants. Each warrant is exercisable for a compensation option. The option price is $2.50 and the options expire on September 18, 1998. No compensation options have been exercised as of January 31, 1998.

14. Financial instruments

Financial instruments are comprised of cash, bank indebtedness, short-term investments, accounts receivable, accounts payable and accrued liabilities.

Fair value of financial instruments

At January 31, 1998 and January 31, 1997, the estimated fair value of short-term investments, accounts receivable, accounts payable and accrued liabilities and bank indebtedness was equal to the book value given the short-term nature of the items.

Foreign exchange risk

Foreign exchange risk is the risk that exchange rates will affect the Corporation's operating results. The Corporation is exposed to foreign exchange risk in that substantially all the Corporation's sales contracts are denominated in US dollars while approximately 66% of the Corporation's expenditures are incurred in US dollars.

At January 31, 1998 and January 31, 1997, cash includes $2,662,925 and $nil, respectively, denominated in US dollars which have been translated to Canadian dollars at the month-end exchange rate.

At January 31, 1998 and January 31, 1997, accounts receivable includes $8,046,678 and $2,222,284, respectively, due in US dollars which have been translated to Canadian dollars at the month-end exchange rate.

At January 31, 1998 and January 31, 1997, bank indebtedness includes $285,929, and $nil, respectively, due in US dollars which have been translated to Canadian dollars at the month-end exchange rate.

At January 31, 1998 and January 31, 1997, accounts payable and accrued liabilities includes $4,025,151 and $884,795, respectively, due in US dollars, which have been translated to Canadian dollars at the month-end exchange rate.

Credit risk

The Corporation is exposed to credit risk through cash and short-term investments and accounts receivable. The Corporation holds its cash and short-term investments positions with reputable financial institutions and in high quality or guaranteed short-term financial instruments. Accounts receivable credit risk is mitigated by the Corporation's large customer base and the dispersion of customers among industries and geographical locations.

15. Segmented information

Revenues are segmented according to the geographic location in which the customer is located:

Year ended	Canada	United States	Latin America	Other Foreign	Consolidated
January 31, 1998	$ 2,082,555	$ 23,679,242	$ 2,400,128	$ 1,613,947	$ 29,775,872
January 31, 1997	998,014	6,060,799	1,663,143	81,609	8,803,565

Net earnings and assets at each year-end are segmented on a corporate basis:

Year ended	Canada	United States	Europe	Inter-segment adjustments	Consolidated
January 31, 1998					
Net earnings	$ (18,496,786)	$ 1,177,998	$ (593,119)	$ 949,511	$ (16,962,396)
Depreciation and amortization	16,444,523	145,832	25,684	—	16,616,039
Assets at year-end	117,054,200	25,895,196	698,362	(18,469,521)	125,178,237
January 31, 1997					
Net earnings	(1,089,310)	—	—	—	(1,089,310)
Depreciation and amortization	195,135	—	—	—	195,135
Assets at year-end	8,483,400	—	—	—	8,483,400

16. Subsequent event

On February 4, 1998, the Corporation executed a Stock Issuance and Escrow Agreement (the "Stock Agreement") and employment agreements with six individuals resident in the United States. Pursuant to the Stock Agreement, the Corporation issued to the individuals a total of 406,000 common shares, valued at $7.00 per share, of which 365,400 shares were held in escrow by the Corporation. The shares are to be released from escrow as follows: one third on February 4, 1999 if the individual is still employed on that date; one third on February 4, 2000 and 2001 if the individual is still an employee on February 4, 2000. The value of the shares is to be recorded as goodwill and amortized over two years.

BOARD OF DIRECTORS

Peter Schwartz
Chairman of the Board and
Chief Executive Officer

Mark Lee
Vice Chairman

John Albright
Principal,
J.L. Albright Venture Partners Inc.

James Balsillie
Chairman and Chief Executive Officer,
Research in Motion Limited

Steven Spicer
President,
Spicer Corporation

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Peter Schwartz
Chairman of the Board and
Chief Executive Officer

Pierre Donaldson
Executive Vice President,
Worldwide Field Operations

Ronald Duncombe
Executive Vice President,
Finance and Chief Financial Officer

Paul Laufert
Executive Vice President,
Corporate Development and Corporate Secretary

Art Mesher
Executive Vice President,
Corporate Strategy and Business Development

CORPORATE INFORMATION

Annual Meeting
The Annual Meeting of Shareholders will be held on Tuesday, June 30, 1998 at 5:30 p.m. at the Canadian Clay & Glass Gallery, 25 Caroline Street North, Kitchener, Ontario. Telephone (519) 746-1882. Stockholders of record as of May 18, 1998 shall be entitled to vote. All stockholders are invited to attend.

Stock Information
The Company's common stock has traded on the Toronto Stock Exchange under the symbol DSG since its initial public offering on January 21, 1998.

Transfer Agent
Montreal Trust
151 Front Street West
Toronto, Ontario M5J 2N1
(416) 981-9696

Independent Auditors
Deloitte & Touche
55 King Street North,
Suite 700
Kitchener, Ontario
N2G 4W1
(519) 576-0880

Investor Inquiries
Investor Relations
The Descartes Systems Group Inc.
120 Randall Drive
Waterloo, Ontario
N2V 1C6
(519) 746-8110
E-mail: investor@descartes.com

Worldwide Headquarters
120 Randall Drive
Waterloo, Ontario
Canada N2V 1C6
Tel: (519) 746-8110
Fax: (519) 747-0082

North American and Latin American Operations
Descartes Systems Group
1410 Spring Hill Road, Suite 200
McLean, VA 22102-3308
Tel: (703) 790-8300
Fax: (703) 790-8333

Additional Offices:
Owings Mills, Maryland
Hoffman Estates, Illinois
Glendale, California
Orange, California
Dallas, Texas
Miami, Florida

European, Middle Eastern and African Operations
Descartes Systems Europe, BV
Villawal 1
3432 NX Nieuwegein
The Netherlands
Tel: +31 (0)30 6004900
Fax: +31 (0)30 6004999

United Kingdom:
Descartes Systems UK Ltd
Park House, 14 Kirtley Drive
Castle Marina
Nottingham
United Kingdom NG7 ILQ
Tel: +44 (0)115-9241414
Fax: +44 (0)115-9474677

Additional Office:
Bracknell, United Kingdom

France:
Descartes Systems France SARL
Roissypole "Le Dôme"
2, Rue de la Haye
BP 10901
95731 Roissy CDG Cedex
France
Tel: +33 (0)1 4919 4917
Fax: +33 (0)1 4862 6384

Asia, Australia, and Pacific Operations
Descartes Systems Group
Level 28, Central Plaza
No. 34 Jalan Sultan Ismail
50250 Kuala Lumpur Malaysia
Tel: (603) 784-9066
Fax: (603) 784-9068

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Descartes

THE DESCARTES SYSTEMS GROUP INC.
120 RANDALL DRIVE
WATERLOO, ONTARIO
CANADA N2V 1C6
TEL: (519) 746-8110
FAX: (519) 747-0082
E-MAIL: info@descartes.com
WEB: www.descartes.com